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YEAR STAMP 1973

Copied to Mr B. Dawson
State Ministry of Oil & Minerals
SG for their two cases

27 28A
31

EXPORT CREDITS GUARANTEE DEPARTMENT

P.O. BOX NO. 272 ALDERMANBURY HOUSE, ALDERMANBURY, LONDON EC2P 2EL.

Telex: 883601 Telephone: 01-606 6699

P Donovan Esq
Commercial Secretary
Royal Swedish Embassy
British Interests Section
Baghdad
Iraq

Your reference

Our reference
OD 156/15

Date
27 July 1973

Dear Donovan

£100m RUMAILA - HADITHA PIPELINE

SR/SG 98800/5177
SR/SG 46526/5077

We have corresponded in the past few months on this following the requests for cover for gas turbines from both GEC and John Brown. Your cables exced 16 of 3 May and 20 of 12 June refer, also Esbot 49. We have indicated supplier credit cover to both firms and at this stage the position rests.

28B

In your exced 16 you commented that only Willbros in the UK had shown any interest so you will be interested to see the attached letter we have received asking us to consider a Buyer Credit facility for £12.5m UK goods (mostly for the pumping stations) and £12.5m UK services mostly of the heavy engineering type in connection with the pipeline.

This is clearly a massive piece of business for Iraq and you can see that compared with our present total commitment of £5.6m a further £25m would be somewhat out of scale. Consideration will have to be given by Whitehall in view of its size, terms and large services element and although Section 2 cover would seem appropriate it would be wrong to assume a favourable outcome. Willbros apparently have to tender by 4 August and we have told them that although we will urgently consider the case we cannot hold out too much hope of covering such a large contract.

There are various points we should like to put to you

1. Are Bechtel and Enterpose and Willbros's parent company The Williams Co of Tulsa, Oklahoma on Iraq's Arab Boycott list?

2. Willbros say that two other consortia are interested one headed by Neill Price USA and the other involving Snam Progetti and SIPAM. Have you any knowledge?

3. We shall of course check the alleged 12 years terms by Exim and COFACE but we think it most doubtful that more than 10 years would be acceptable to us. Any information you can get on the terms the Iraqi's are hoping for and likely to be offered by competitors will therefore be useful?

4. In addition to the £25m Willbros will probably ask us to cover their share of the local element (amount unknown) and our maximum terms for this would be 5 years from mean date of drawings of eligible local costs for up to 16% in value of the UK element.

5. In view of the massive size of the complete contract (£100m) we should (if cover is agreed) certainly want maximum security involving the resources of Iraq to the full. In this regard the borrower would have to be able to fully commit

the Government in every sense and we would of course value your own view and knowledge of what security would be best and available and good for the amount involved. (I note your excel 16 said that it would be inappropriate to ask for a guarantee of payment.)

6. Excel 20 said that the business had not been budgeted and that it will probably take precedence over the South Iraq/Mediterranean pipeline budgeted at ID 146m (£1??m?). Is this still so or has anything more positive been decided?

7. Your two cables mentioned the high priority given by the Iraqi's and presumably this still applies. We would though welcome your own view. Also we would welcome views and facts on the ability to repay £100m over, say, 10 years.
39A cf E 156/10 Your letter to Ashwood of 10 March does give estimated projected earnings up to 1975 and ideally we would like further projections if possible.

Having posed various points I would emphasise that it is not at all definite that we are happy to accept the addition of this amount on our books and unless we can be absolutely sure that Iraq is completely serious in its resolve to see the project through to the end and can really afford to pay for it over the whole period it would not merit any further consideration.

Yours sincerely

Ivan Scott.

I C Scott

P.S. To-days Financial Times has an article on page 8 which is relevant.

WILLBROS (OVERSEAS) LIMITED

ENGINEERS–CONSTRUCTORS

A SUBSIDIARY OF
THE WILLIAMS COMPANIES
TULSA, OKLAHOMA, U.S.A.
Registered in England No. 615246

Registered Office:
PROVINCIAL HOUSE
62-68 HIGH STREET
KINGSTON-UPON-THAMES
SURREY KT1 1EJ

TELEPHONE: 01-549 447 (10 lines)
CABLES: WILLBROS LONDON
TELEX: 928172

26th July 1973

60L-1760

Export Credits Guarantee Dept.,
P. O. Box 272,
Aldermanbury House,
Aldermanbury,
London, E.C.2.

Dear Sirs,

Iraq Crude Oil Pipeline System

It is the intention of the Iraqi Government (Republic of Iraq, Ministry of Oil and Minerals) to construct a crude oil pipeline system connecting the North Rumaila Oil Field in the southern part of Iraq, to the existing K-3 (Haditha) pumping station of the Kirkuk-Mediterranean Pipeline system. The project is designed to operate in two directions, thus, either transporting Rumaila crude northwards, or Kirkuk crude southwards.

Description of the project and additional information is attached hereto in the form of letter reference 1/C/178 dated 14th April 1973 from the Ministry of Oil & Minerals from the Republic of Iraq.

Willbros (Overseas) Limited has formed a Joint Venture with Bechtel Incorp. (U.S.A.) and with Entrepose (France) to submit a proposal and perform a contract if we are successful tenderers.

Contract documents are in our possession and the proposal will be submitted in Iraq on 4th August 1973. It is expected that contract award will be made and definitive contract signed before the end of 1973 with the project being completed before the end of 1975.

We have been requested to submit with our proposal a financing proposal involving long term loans. The financing proposal will accompany our tender as a separate but relative document.

Our financing proposal envisages a combination of

(a) Direct credits and loan guarantees by Export-Import Bank of the United States covering a portion of U.S. goods and services

(b) Loans from U.K. banks, with ECGD guarantee, to cover a portion of U.K. goods and services.

.../2

(c) Loans from French banks, with COFACE guarantees, to cover French goods and services, and

(d) Additional commercial loans, based on Iraqi Government guarantees, to cover all or a portion of down payment and other cash requirements.

The financing plan will encompass Export-Import Bank of the U.S. and E.C.G.D. guarantees for loans to cover a portion of local costs in Iraq.

We have received unofficial advice that Export-Import Bank of the U.S. is prepared to extend their credit and loan facilities for a period of 12 years following contract completion under the usual terms. Likewise, unofficial indications from France are that COFACE are prepared to extend their facilities for a like period of time. We expect to receive firm indications and/or commitments from both of these sources prior to submission of our proposal on 4th August 1973.

With this letter we request that E.C.G.D. issue its financial guarantee to U.K. banks, in the usual manner and subject to usual documentation, to cover at least 90% of the U.K. goods and services element of the project. In order to present a comprehensive financial proposal, we request terms complimentary with those being requested by Export-Import Bank and COFACE - i.e. for a period of 12 years following completion.

The engineers and estimators of the three Joint Venture members are presently comparing prices and preparing the proposal and we do not yet have a definitive estimate of U.K. goods and services to be provided. Presently, however, we estimate that U.K. goods and services could total up to £25 Million.

Although we have had previous preliminary discussions with your good selves about this project we recognize that submission of this more formal request at this late date, delayed for reasons not totally within our control, gives you only a very short period for your necessary review and approval. However, in order to have a basis for our financing proposal and in order to enhance the possibility of providing the maximum amount of U.K. goods and services for this project, we request your urgent action so as to give us an indication as soon as possible.

.../3

We shall be most pleased to provide you with any additional information which you might request following our todays meeting.

Thank you in advance for your understanding of the urgency of this matter and your expeditious consideration of this request.

Yours faithfully,
WILLBROS (OVERSEAS) LIMITED

Roy Jones

Roy N. Jones
Director

Attachment

RNJ/skr

REPUBLIC OF IRAQ
MINISTRY OF OIL & MINERALS
STATE CONSULTING COMPANY FOR OIL PROJECTS
P.O. BOX 198
BAGHDAD – IRAQ

Ref. No. 1/C/172

Date: 14/4/1973

Messrs: [illegible] OVERSEAS
[illegible] HOUSE
93/107 SHAFTESBURY AVENUE
LONDON W1V 8 BJ
ENGLAND.

Dear Sirs,

It is the intention of the Iraqi Government to construct a large crude oil pipeline system connecting North Rumaila oil field in the southern part of Iraq to the existing K-3 (Haditha) pumping station of the Kirkuk-Mediterranean pipeline system. The project is designed to operate in two directions, thus either transporting Rumaila crude northwards or Kirkuk crude southwards.

A. <u>BRIEF DESCRIPTION OF PROJECT</u>

The system will consist of the following main installations :

1. A 42" O.D. main pipeline having <u>the</u> following details :

   1.1 Approximately (667.6) km 42" O.D. pipeline according to API 5LX or 5LS grade 60 consisting approx. of.

      1.1.1 (1.8) km (12.70) mm wall thickness pipe
      1.1.2 (115.1) km (10.31) mm wall thickness pipe
      1.1.3 (550.7) km (9.52) mm wall thickness pipe

   VK 1.2 Motor operated remote controlled line valves.

   VK 1.3 Line cathodic protection (included).

   1.4 Remote control tie-in to the whole system.

1.5 All line additional works such as scraper trap stations, crossing, markers, fencing, etc.

1.6 Service road along the route for line inspection and maintenance,

UK 1.7 Telecommunication and telecontrol systems. (...)

2. An (18) inch gas pipeline running parallel to the 42" crude line and providing the required gas for the pumping stations. This line will be in accordance with API specification 5LX or 5LS grade (60) and of (6.35) mm wall thickness throughout.

3. Terminal pumping station located at Rumaila consisting of :

3.1 Three floating roof storage tanks each having a useful capacity of (50,000) M^3.

3.2 Three booster pumps.

3.3 Three main pumps, two operating and one stand-by each having a capacity of about (6400) M^3/hr and differential head of (610) meters.

UK

3.4 Turbo-generator, electric system, telecommunication and main control center piping, utilities, civil works including administration and industrial buildings. The operation of the system will be remotely controlled from this station since it will be the dispatching center of the system.

4. Three intermediate pumping stations located at km 175, 340 and 515 respectively (from Rumaila) and consisting of main pumping units similar to (3.3) above, turbo-generator, electrical system, instrument facilities, telecommunication and telecontrol stations, piping, utilities, civil works including living and industrial buildings.

UK

5. Terminal station located near existing K-3 (Haditha) pumping station including electrical and instrument facilities, telecommunication and telecontrol station, piping, utilities and civil works.

B. SCOPE OF SUPPLY

The State Consulting Company for Oil Projects (SCCOP) who has been entrusted with execution of this project is soliciting offers on a turn-key basis for the following :

French 1. Detailed engineering and design of mechanical, civil, electrical and instrument works.

UK/USA/France 2. Supply of all materials and equipment for the temporary and permanent installation.

UK/USA/France 3. Construction and assembly of crude pipeline and gas line with all ancillary equipment.

Local + UK 4. Construction and assembly of mechanical, civil, electrical, instrument works at the pumping stations and where required by design.

5. Commissioning and testing of individual equipment and of the whole system.

Complete topographical services and soil investigations have been carried out at the sites of pumping stations and along the pipeline route. Engineering studies on the system have also been performed, and detailed Contract Documents are now being prepared.

C. METHOD OF EXECUTION

It is the intention of (SCCOP) to divide the execution of project into three major parts :

1. Contract for supply of line pipe
2. Contract for supply of main pumping sets
3. Contract for the detailed design, supply of remaining material and equipment (i.e. excluding 1 & 2), construction, testing and commissioning.

We have the pleasure of hereby inviting you to participate either in the third contract (construction contract) on a turn-key basis or in all the three contracts (i.e. design, supply and construction of the whole project) on a turn-key basis.

Terms of payment will be agreed upon, however, due to the very large sums of money involved, we are aiming at a special long term loan and/or a deal involving the purchase of crude oil. The financial terms are to be submitted with your offer but in a separate form.

You are kindly requested to inform us not later than April 15th 1973 of your readiness to participate in the execution of this project and whether you will be prepared to undertake the supply alone, or construction only or the whole project on a turn-key basis.

A delegation or representative from your esteemed organization is most welcome to visit Iraq to discuss details or inspect the site.

If your answer is affirmative we will send you the relevant tender documents when they become ready.

D. TIME TABLE

We have the following time table in mind :

1. A brief description of the project will be forwarded to you during April 1973.

2. The tender documents will be ready and forwarded to you during May 1973.

3. Offers are to be submitted within (2½) months from date of sending you tender documents.

4. It is our aim to have the projected completed by the end of third quarter of 1975.

Awaiting your early and favourable reply.

We remain,

Yours faithfully,

for

PRESIDENT OF SCCOP
Dr.Mahdi Sheikh Ali

encl. A brief description of the project.

CRUDE OIL PIPELINE MAJOR SPECIFICATIONS

The pipeline is of approx. length of 674.3 Km and has a 42 inch O.D. and manufactured according to API specification 5LX or 5LS of grade X60 (with possible slight modification).

Pipes shall be of the longitudinal seam welded or spiral seam welded type with joint efficient factor equal to unity.

Pipe thickness shall be as follows :

Thickness mm	Length Km
9.52	556.2
10.31	116.2
12.70	1.9

At least 90% of the pipe shall be furnished with 10 to 12.3 M long. All pipe welds shall be inspected by Ultrasonic methods on its full length. Any suspected point will be subjected to radiographic examination.

Pipes ends shall be subject to radiographic examination for 200 mm for each after the hydrostatic test.

GAS PIPELINE MAJOR SPECIFICATIONS

The pipeline is of approx. length of 674.3 km, has an 18 inch O.D., 6.35 mm wall thickness and manufactured according to API specification 5LX or 5LS of grade X60.

Pipes shall be of longitudinal seam welded or spiral seam welded type with joint efficient factor equal to unity.

At least 90% of the pipe shall be furnished with 10 to 12.3 M long. All pipe welds shall be inspected by Ultrasonic methods on its full length. Any suspected point will be subjected to radiographic examination.

Pipe ends shall be subjected to radiographic examination for 200 mm for each after the hydrostatic test.

GENERAL SPECIFICATIONS

PUMPING SETS

It is required to pump crude oil in a 42" O.D. pipeline starting from Rumaila in the south of Iraq to Haditha. Reverse flow is also considered.

Four (4) pumping stations are to be built each having three (3) turbo-pumps two (2) of which are connected in parallel and the third one is a stand-by. Gasturbines shall be of the two shaft simple cycle type. Centrifugal pumps shall be of double section with lateral flanges. Units shall be designed for désertic outdoor installation and suitable for an unattended operation remotely controlled.

Station pumping capacity is about 6400 M^3/hr in the Rumaila-Haditha direction and 7130 M^3/hr in the Haditha-Rumaila direction, with differential head of 610 Mt, suction pressure of 3.5 ATA and available NPSH of 35 M.

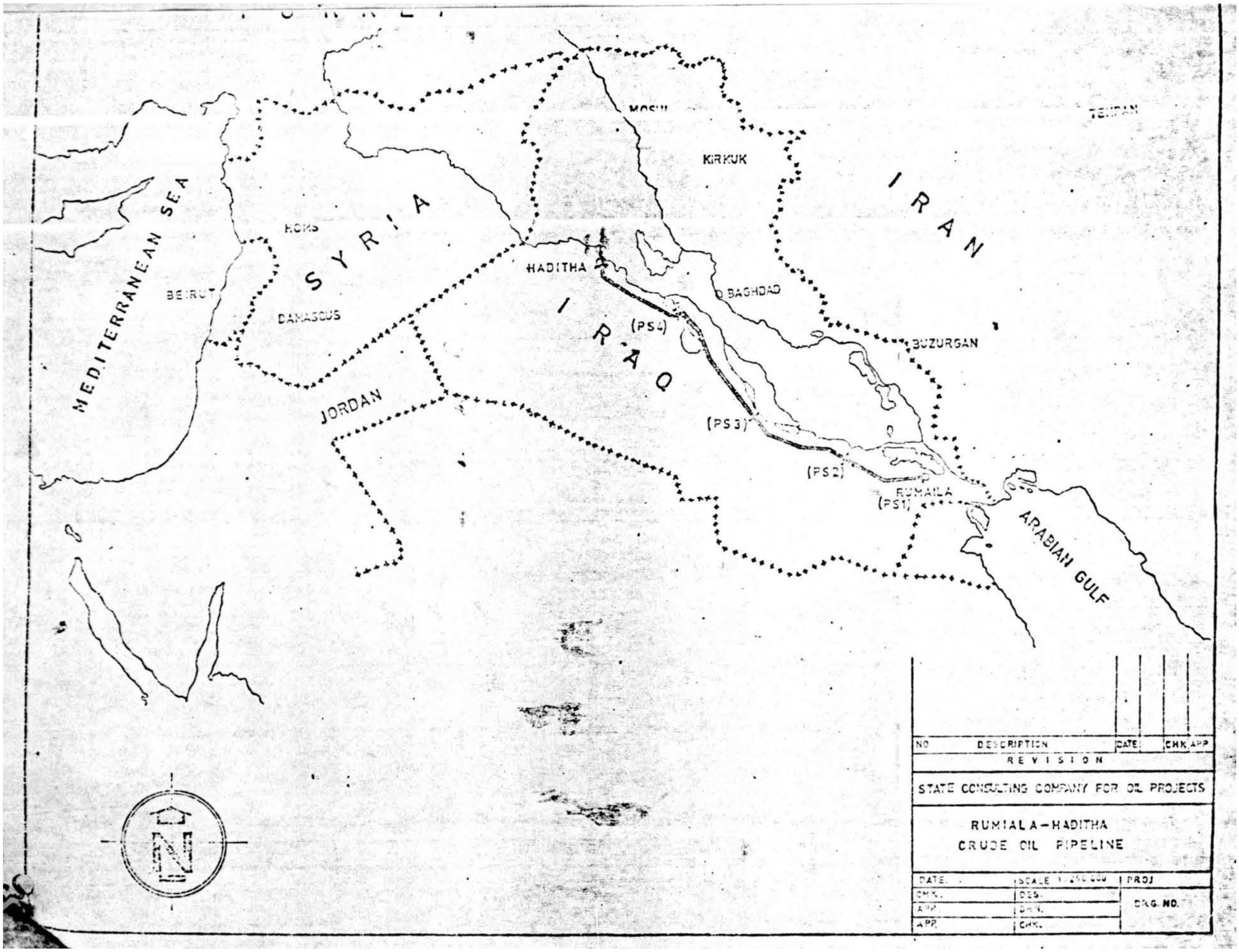
The characteristics of the crude to be pumped is :

		Rumaila-Haditha Direction	Haditha-Rumaila Direction
Solid	Sand Trace	Sand Trace	Sand Trace
Pumping temp (°C)	13	13	23
Specific gravity Kg/dm^3	0.8488	0.8614	0.8446
Vapour Pressure at 37.8°C ATA	0.457	...	0.309
Viscosity at Pt (C St)	12,2	16,6	9.1
Corr. Ero. caused by	Sand	Sand	Sand

The altitude of the stations to be built varies from (7) m to (50) m above seal level. The maximum ambient temperature is 50°C and the minimum is (-5°C) with a minimum relative humidity of 30% and a maximum of 70%. Maximum wind speed may be taken as 115 Km/hr.

Fuel gases for the turbines may be taken from two independent sources, whose characteristics are :

Composition	Rumaila % Mol	Kirkuk % Mol.
CO_2	1.6	0.6
H_2S	–	1.1
CH_4	76.35	79.6
C_2H_6	13.49	13.1
C_3H_8	5.78	3.8
C_4H_{10}	1.83	1.2
C_5H_{12}	0.73	0.3
C_6H_{14}	0.22	0.3
Molecular weight Kilomole	21.34	19.96
Specific gravity (15°C – 760 mm Hg) Kg/st Cu M	0.903	0.845
C_p/C_v K.	1.25	1.26
Kinematic Viscosity (C st)	11.09	12.01
Net Calorific value Kcal/st. Cu M	10456	9814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FINANCIAL TIMES

Cutting dated 28 JUL 1973...19

IRAQ

All clear for an oil boom

BY ROBERT GRAHAM, RECENTLY IN BAGHDAD

FOR THOSE who can afford it in Iraq at this time of year the thing to do is to take a holiday abroad. In the past few weeks Baghdad airport has been packed with people making for the Lebanon or Europe. In Baghdad few can recall such an exodus.

The exodus is being attributed directly to two factors, a sudden easing by the authorities on travel abroad in the wake of the abortive coup by Nazim Kazzar and a sharp reduction of the travel tax, which has been cut from ID50 to ID20 (about £25). It is symptomatic of the present situation in Iraq that currency restrictions and the prevention of people travelling abroad are no longer so severe. In themselves these two things may not seem very significant but they reflect one aspect of the change in atmosphere which has occured since the coup.

The coup attempt has been responsible for a fundamental shake-up in the Baath leadership and looks like producing a more pragmatic approach on all fronts Sidam Hussein, the Vice-President who remains as the strongman of the regime has in the past two weeks cast himself as an apostle of moderation.

The makings of such a policy began last February after agreement was concluded with the Iraq Petroleum Company. This agreement resolved all contentious issues created by nationalisation last June as well as others dating back to 1961 when the famous Law 80 was promulgated expropriating 99 per cent. of IPC's unexploited acreage including the rich North Rumaila field. Under the pact with the companies whose principal shareholders are BP, Shell, Mobil and Standard (New Jersey) it was agreed to pay £141m. in final settlement of all claims and accept delivery of 15m. tons of crude.

Selling where it wants

At the same time Basrah Petroleum Company, operating the South Rumaila fields in southern Iraq and still owned by the IPC shareholders, undertook to raise production from 35m. tons this year to 80m. tons by 1976. The net effect has been that, with all legal action dropped by IPC, Iraq is now assured of being able to sell its crude where it wants, instead of having to rely upon crude barter deals with Eastern Europe. These halted on signature of the agreement. It also means that the austerity measures introduced last year at the time of nationalisation can be relaxed.

Looked at another way, Iraq no longer has to feel "exploited" since in the past IPC was responsible for roughly 90 per cent. of State revenues. It is now estimated that oil revenues will this year be ID 450m., ID 650m. next year and reaching ID 750m. by 1975.

After this there will be a quantum jump in revenues as 1976 will be the year when production will really push ahead. In volume terms production, which this year should be around 95m. tons, will double by 1976. Such production increases will only be overtaken by Saudi Arabia. Given this rapid rise in production national income is expected to move sharply forward from its current level of ID1,250m. to ID1,500m. (or £2,000m.) next year.

The main focus of economic development will be in the oil sector. In the northern Kirkuk fields, formerly owned by IPC, a project is underway to raise production from 57m. tons to just over 65m. tons by expanding pipeline capacity through Syria to Mediterranean terminals. Agreement was reached with the Syrians on this in June.

Further, the Italian Snam Projetti is studying a 25m. ton capacity pipe through to a Turkish Mediterranean port.

A far bigger project, costing up to £300m., is the building of a "strategic" two way pipeline from Haditha on the Syrian border through to Basrah which would enable the Iraqis to switch output either to the Gulf or Mediterranean whenever tanker freight rates so demanded. It will also lessen dependence on Syrian transit which has always been fraught with disputes.

Parallel with this, the North Rumaila field, developed mainly with Soviet aid, will be expanded from 5m. tons to 40m. tons by 1976. To cope with this plans are now at an advanced stage to construct a deep-water terminal somewhere near Basrah Petroleum Company's existing Khor al Amaya terminal. This will have an eventual capacity of 40m. tons and could cost £40m.

Exploration stepped up

Exploration will also be stepped up. In Baghdad it is thought possible that while Iraq lies fourth behind Saudi Arabia. Kuwait and Iran in known recoverable reserves the country possesses reserves second only to those of Saudi Arabia.

For development to proceed smoothly, much will hinge on Iraq's ability to operate an efficient national oil company and the authorities willingness to deal pragmatically with the international oil companies of BPC.

At present there are two national oil companies, INOC and the Iraq Company for Oil Operation. ICOO only operates North Rumaila while INOC is responsible for the full range of activities through to marketing. The Iraqis are considering what seems the logical step of establishing a unified company rather on the lines of Algeria's Sonatrach which is much admired.

As far as the international oil companies are concerned the Baath leadership last week made it clear that there were "no problems." In fact problems do exist, but this means that they have ceased to be political and are now merely technical.

For instance, BPC is awaiting discussions on participation as well as how to tackle the exploitation of flared gas from South Rumaila. These are extremely complex issues. The impression is that the authorities will now move cautiously, concentrating on the digestion of what they already have. On participation in particular they seem unlikely to move until the outcome of Kuwait's participation debate is clarified.

All this is a very different picture from previous years. For the first time since the overthrow of the monarchy in Iraq, the country has both the funds and, it seems a better psychological atmosphere, to improve on the poor economic performance to date.

With a small population of 11m., two good rivers and a steady although not large income from oil, Iraq's development has been slow. Often only 50 per cent. of development expenditures have been utilised, mainly due to a mixture of political uncertainty and ideological wrangling among those who made the decisions.

No observer in Baghdad believes that the Baath Party will alter its basic socialist ideology But there is enough evidence to suggest that in economic matters the Iraqis are now keen to import the latest Western technologies. For instance, the French, who enjoy the greatest favour in Baghdad, are being consulted on a whole range of projects, from electrification to the construction of a steel complex and the new deep water terminal.

Saviem has a truck assembly plant outside Baghdad and this year France will become the leading exporter in all probability. Britain has until now hung onto its position as the first supplier—£25m. a year—largely due to its past trading links. Clearly opportunities now exist even though diplomatic relations still remain broken. Nevertheless in the final analysis diplomatic relations would undoubtedly help matters.

Preference for U.S.

Meanwhile, an interest is already being shown in U.S. technology by the two national oil companies in preference to Soviet or East European. Elsewhere, for instance, Iraqi Airways has agreed to buy three Boeing 707s and two 737s.

In this climate, it would be surprising if the majority of the big contracts coming up do not go to Western companies. Indeed, there have only been three large East European contracts. The Poles are developing sulphur deposits. Russia has invested in North Rumaila and there is a Czech refinery at Basrah, though this is behind schedule.

But whichever nation carries out the new contracts, nothing will alter the fact that Iraq has become one of he largest markets in the Arab world. This year's budget, passed after the IPC agreement, puts expenditure at ID1375m.

G. M. BURTON Esq

WITH COMPLIMENTS

Ivan Scott.

GSB 10/8

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SUPPLIER CREDIT COVER IS REASONABLE BUT I SHARE YOUR DOUBTS ABOUT BUYER CREDIT FACILITY OF SIZE INDICATED, FOR REASONS GIVEN IN NEXT PARAGRAPH.

2.
PIPELINE IS STRATEGIC IN CONCEPT RATHER THAN ECONOMIC AND IS GROUNDED IN IRAQ'S BARGAINING WITH SYRIA (OVER RENT OF PIPELINE TO MEDITERRANEAN) AND FEARS OF IRAN (CONTROLLING TANKER ROUTE IN THE GULF).
IT SEEMS TO BE VERY EXPENSIVE INSURANCE AGAINST BLOCKING OF ONE OR OTHER OF MAIN EXPORT ROUTES FOR IRAQI OIL.
ONE WOULD HOWEVER NORMALLY EXPECT MAJOR PIPELINE REQUIRING CAPITAL INVESTMENT OF THIS SIZE TO BE WORKED TO THE FULL, RATHER THAN BE STAND-BY SWITCHING FACILITY.

3.
ON YOUR SPECIFIC POINTS, BOYCOTT LIST IS NOT RELEVANT.
WE HAVE KNOWLEDGE OF OTHER CONSORTIA BEING INTERESTED AND HAVE RECENTLY MET NEGOTIATOR FOR NEILL PRICE.
IRAQIS ARE NATURALLY OUT FOR BEST TERMS THEY CAN GET BUT WE HAVE NO SPECIFIC INFORMATION.
LOCAL ELEMENT IS UNQUANTIFIABLE AND COVER WOULD BE A DOUBTFUL PROPOSITION IN MY VIEW.
SECURITY WOULD BE AGREEMENT WITH GOVERNMENT OF IRAQ.
AS TO PRECEDENCE OF MAJOR CRUDE OIL PROJECTS HERE FIRST PRIORITY GOES TO DEVELOPMENT OF SOUTHERN FIELDS AND DEEPWATER TERMINALS FOR THEM.
SECOND COMES EXPANSION OF SYRIAN PIPELINE CAPACITY AND NEW PIPELINE TO TURKEY.
IRAQ SHOULD BE ABLE TO REPAY IF IT ENJORS STABILITY OVER 10 YEARS AND IS ABLE TO ACHIEVE PLANNED DEVELOPMENT OF ITS OIL INDUSTRY.

/1976

1976 IS KEY YEAR IN THIS RESPECT AND EARNINGS FROM THEN ON
SHOULD INCREASE CONSIDERABLY IF CONDITIONS MENTIONED ABOVE
ARE MET AND RENEWAL OF TEHRAN AGREEMENT FURTHER INCREASES
PRICES.

4.

TO SUM UP,MY VIEW IS THAT RUMAILA - HADITHA PIPELINE IS DOUBTFUL
PROPOSITION FROM PURELY ECONOMIC POINT OF VIEW.
IF IRAQIS WANT IT THEY SHOULD FINANCE IT THEMSELVES,WHILE
WE SHOULD BE HAPPY TO SELL THEM EQUIPMENT AND SERVICES FOR IT
ON NORMAL TERMS.

DONOVAN

EXCED DISTRIBUTION

M E D
F R D

BRITISH EMBASSY
COMMERCIAL DEPARTMENT
Şehit Ersan Caddesi 46A, Çankaya, Ankara
Telephone: 121090-121092

NBR 12/7

35

ECO 12/1

3 August 1973

Copy to { Mr Bretherton, Oil Div., DTI
Mr Burton, MED

Copy for our file (Iraq); top copy to SED for entering. 9/8

G P Lockton Esq
Oil Department
FCO

Dear Lockton,

TURKEY: IRAQ OIL AND NATURAL GAS PIPELINES

1. The long-discussed project for a crude oil pipeline from Kirkuk in northern Iraq to the Mediterranean coast near Iskenderun seems now to be entering the implementation phase. I visited the Turkish Petroleum Corporation (TPAO) a few days ago and the following is based upon what I found out.

2. Attached is a brief technical description of the project which the TPAO has sent out to selected pipeline contractors and steel pipe manufacturers. The pipeline will be 1,026 kms long: 374 kms of it will be in Iraq and 652 kms in Turkey. The proposed capacity is 25 million tons a year rising to 35 million tons. The main pipeline will be of 40" outside diameter, reducing to 30" for the last 74 kms. There will be five remotely controlled pumping stations and the pipeline will terminate at a marine terminal with tanker loading facilities. There will be no refinery. The crude oil will be transported from the terminal to refineries in other parts of Turkey and to third markets. The project is scheduled for completion in 1976.

3. The pipeline is a joint-project of the TPAO and the Iraq National Oil Co (INOC). Each party will be responsible for the financing and construction of the line within its national territory. There has been a regular series of meetings between TPAO and INOC and a further meeting is to be held shortly at which it is hoped to finalise the financial terms in respect of the operation of the pipeline and the price at which Iraqi oil will be offered ex-Turkish terminal. If all goes well, the Iraqi Minister for Foreign Affairs is expected in Ankara towards the end of August to sign the final Agreement with the Turkish Foreign Minister, Mr Bayülken.

4. The estimated cost of the project is $350-400 million of which the Iraqi share will be about $80-100 million. This leaves the TPAO with a sizeable financial problem and their first move has been to ask potential contractors and equipment suppliers to submit "....their intentions on the possibility of participation in the financing of the project." The TPAO official to whom I spoke admitted that they could not get down to brass tacks until the operating tariff had been agreed with the Iraqis. Until this had been done, they were unable to calculate the rate of return on the proposed investment, the optimum amortization period, etc.

/5.

5. One of the most interesting aspects of this project is the behind the scenes rôle of the Italian ENI group. There has existed in Ankara since 1969 a consulting engineering company named TÜMAS. Forty per cent of the capital is owned by a Danish engineering concern (Haldor Topsoe) and the remainder by the TPAO and other Turkish State-owned organisations. A year or so ago, the Danish company was in financial difficulties and they were bought up by Snam Progetti SpA which, as you know, is the consulting arm of ENI. Thus Snam Progetti/ENI are now partners with TPAO in TÜMAS and it was no surprise when Snam Progetti were engaged to survey, plan and design the proposed pipeline. It was alleged at the time (but I have no proof) that ENI/FIAT/FINSENDER had agreed to defray part of the costs of the survey and to finance and construct the pipeline itself. It looks very much as though ENI have been pushing this project, not only for its export content, but also because it provides a convenient means of access to Iraqi crude oil. Since the capacity of the pipeline is between two and three times Turkey's total annual crude oil import requirements, the surplus available for export to Italy or other countries will be substantial.

6. Turkey's crude oil imports in 1972 amounted to approximately 8 million tons of which over 4.5 million tons came from Saudi Arabia and 1.4 million tons from Iraq. On the face of it, the new pipeline could meet all of Turkey's requirements; but I was informed that not more than 60 per cent would be drawn from this source to avoid over-dependence on Iraq. This implies that 15 million tons a year will be available for export rising to 21 million tons in due course. On this basis, the pipeline could be an attractive financial proposition, especially if the construction costs were met from overseas. The Turks are obviously gambling on the maintenance of friendly relations with Iraq and stable enough political conditions, which is somewhat surprising given their well-known objections to dependence on foreign energy sources. One can only assume that the economics of the project were tempting. Another factor must have been the attitude of Iran which, despite lip service to the contrary, has made little real response to Turkish overtures in connexion with oil and natural gas pipeline projects. I think we can take it that these projects are now dead despite what Mr Bayülken told Mr Amery when the latter visited Ankara two months ago. The TPAO official with whom I spoke made some pretty scathing remarks about the MFA clinging to hopes and ignoring the realities of the situation.

7. Planning is also going ahead to construct a pipeline to bring natural gas from Iraq to Batman in eastern Turkey. TÜMAS have been doing the pre-feasibility survey; but because the TPAO have been concentrating their energies on the crude oil pipeline, the gas project has not received very much attention. The project is technically possible, given the necessary finance. The real

/problem

problem is to decide what should be done with the gas once it reaches Batman. A number of end-uses are under consideration including an ammonia plant and a power station but no decisions have yet been taken. According to the TPAO, they will start stepping up their studies in September.

Yours ever,

Alan Elgar.

A Elgar

Copies to:
P H Goold Esq, DTI/OFPD
A F Collings Esq, DTI/GESB
N A Pinch Esq, DTI/CRE4
Mrs G S Wright, FCO/SED
Chancery, Tehran
P C B Duncan Esq, ECGD
Director of Economic Intelligence, MOD(DIS)

TÜRKİYE PETROLLERİ ANONİM ORTAKLIĞI

Capital : [illegible] TL.
[illegible] Cad. 22 P. K. [illegible]
Cable - Petrol Ankara, Turkey

Dear Sirs,

Subject: Iraq-Turkey Crude Oil Pipeline System

Iraq National Oil Co. (INOC) and Turkish Petroleum Corporation (TPAO) intend to construct a crude oil pipeline system from Iraq to the Turkish Mediterranean shores. A brief description of the Project is attached hereto.

It is the intention of both INOC and TPAO to invite you to study the possibility of the execution of the said project. Separate proposals are to be made for the two sections of the project situated in Iraq and Turkey respectively.

The following preliminary time schedule has been set for the implementation of the various phases of the said project: -

1. Replies to be made with regard to the above invitation by Mid August 1973.

2. INOC and TPAO shall forward early September 1973 documents covering further details of the project together with General and Special Conditions of contract to selected bidders who have given evidence showing their concrete interest in the implementation of the project.

3. Bidders shall submit their remarks with regard to the documents delivered in "2" above together with their intentions on the possibility of participation in the financing of the project; within one month from the date of issuing the said documents.

4. Tender documents being prepared by an international consultant will be issued by both INOC and TPAO during Nov. 1973.

5. Bids are to be submitted within 6 weeks from the date of issuing the Tender Documents.

6. It is anticipated that final agreement and signing of construction contracts to be concluded early 1974.

7. It is scheduled that the completion of the Project shall be early 1976.

Replies are to be sent to INOC for the Iraqi section at the following address

Iraq National Oil Company
P.O. Box 476
Baghdad - IRAQ

(with copy to TPAO)

and to TPAO for the Turkish section, addressed to

Türkiye Petrolleri A.O.
Müdafaa Cad. No. 22
Ankara - TURKEY

(with copy to INOC)

we remain,

Yours faithfully

Enclosures : Brief Description

Copy to : Iraq National Oil Company
P.O. Box 476
Baghdad - IRAQ

Brief Description of Project

The Project is designed to transport crude oil from the Kirkuk fields in Iraq (K1) across the Turkish territory to the East Mediterranean Shore and load it on tankers through a Marine Terminal.

The Capacity of this system is envisaged to be 25 M.T.A. increasing to 35 M.T.A.

The general description of the Project is as follows:

Pipeline Route description

(1) In Iraq the Pipeline shall start at Kirkuk (K1) and follow the existing Pipelines of the Iraq Company for Oil Operations to Beiji (K2) westward for adistance of 107 Km then turns Northward on the right side of the Tigris river the Iraqi Turkish border for adistance of approx. 267 Km. The nature of the terrain is flat with no particular difficulties forseen for pipe line laying.

(2) In Turkey the pipeline route will turn westwords to the mediterranean shore for adistance of approx. 652 Km. Some parts of the line passes through mountainous areas.

The pipeline shall terminate at the mediterranean shore north of Dörtyol.

Tentative Design of Marine Terminal: It shall consist of onshore storage and pumping facilities and off-shore loading facilities mainly a platform designed to handle 30 M.T.A. The Marine lines will be 2-42" pipes (1) Km long on shore and 4 Km to the platform together with a deballasting facilities.

The System

(1) A 40" O.D. main pipeline with varying thicknessess (8.74 mm. min.) for the major length and terminating with a 30" (7.92 mm.) O.D. pipeline for a length of 74 km. generally according to API 5LX or 5LS grade x 60 wrapped and buried.

1.1 Motor operated remote control valves

1.2 Line Cathodic Protection

1.3 All line additional works such as scraper trap stations, crossings, markers, fencing etc.

1.4 Service road along the route for the line inspection and maintenance.

1.5 Cable telecommunication and telecontrol systems.

(2) Five pumping stations ranging between 10,000 to 16.000 H.P. each, 3 of which will be equipped with electric driven pumps and two by gas turbines.

The pumping stations are remotly controlled from K1 and designed for unattended operation.

(3) Metering stations with turbo meters and provers at the Iraqi Turkish Border and on the off-shore platform.

Project is complete with all other ancillaries and utilites required for the proper operation of the system.

E.C.G.D TELEGRAM

E.C.G. 788A
(Revised April 1968)

DZ

(1)		(2)(a)		(2)(b)		(3) NAMES/WORDS TO BE ENCODED IN G.T.C.
ROUTINE	✓	UNCLASSIFIED		EN CLAIR		
PRIORITY		RESTRICTED		BY G.T.C. (See 3(b))		
IMMEDIATE		COMMERCIAL - IN CONFIDENCE	✓	SAVING		
		CONFIDENTIAL		"R CODE"		
		SECRET		CYPHER	✓	

Authorising Officer: R. Scott

Date: 9.8.73 Time: 4.45

(4) To:-

PRIVATE ADDRESS TELEGRAM

(5) Divisional Reference: OD 156/15

(6) Buyer

(7) Telegram to Embassy or Consulate or Trade Commissioner etc. at: BAGHDAD

(8) Repeat to

(9) Message:- FOR DONOVAN FROM SCOTT.
YOUR EXCED 24 OF 2 AUGUST.
1. WE NOW KNOW EXIM HAVE INDICATED WILLINGNESS TO COVER 10 YEARS TERMS FROM COMPLETION SUBJECT TO GUARANTEE FROM GOVT OF IRAQ. CO-FACE ALSO ARE PREPARED TO CONSIDER COVER BUT ONLY ON 5 YEARS TERMS.
2. WILLBROS DEFINITELY INTERESTED AND IN VIEW OF ~~[illegible]~~ COMPETITION FEEL WE SHOULD CONSIDER COVER IF POSSIBLE THEREFORE WOULD APPRECIATE VIEWS AND INFORMATION ON FOLLOWING
A/ CONFIRMATION OF PURPOSE AS WILLBROS DO NOT UNDERSTAND IT TO BE OF STANDBY SWITCHING NATURE.
B/ WHAT DOES PRECEDENCE OF OTHER TWO SCHEMES MEAN. FOR EXAMPLE ARE THEY TO BE COMPLETED BEFORE SUBJECT PIPELINE STARTS OR IS CONSTRUCTION MORE OR LESS SIMULTANEOUS WITH PAYMENT

For use of D.S.A.O.

Despatched

ON

AT .... hrs.

BY

Please return duplicate copy to:

Export Credits Guarantee Department,
59/67 Gresham Street,
London, E.C.2.

E.C.G.D TELEGRAM

E.C.G. 788A
(Revised April 1968)

DZ

(1)		(2)(a)		(2)(b)		(3) NAMES/WORDS TO BE ENCODED IN G.T.C.
ROUTINE	✓	UNCLASSIFIED		EN CLAIR		
PRIORITY		RESTRICTED		G.T.C. (See 2(b))		
IMMEDIATE		COMMERCIAL - IN CONFIDENCE	✓	SAVING		
		CONFIDENTIAL		"R CODE"		
		SECRET		CYPHER	✓	

BY

Authorising Officer ....

Date .... Time ....

(5) Divisional Reference ....

(6) Buyer ....

(7) Telegram to Embassy or Consulate or Trade Commissioner etc. at

BAGHDAD

(8) Repeat to ....

For use of D.S.A.O.

Despatched

ON ....

AT .... hrs.

BY ....

Please return duplicate copy to:

Export Credits Guarantee Department,
59/67 Gresham Street,
London, E.C.2.

(4) To:-

PRIVATE ADDRESS TELEGRAM

(9) Message:- PAYMENT. PREFERENCE FOR THE OTHERS.

~~C~~ HAVE APPRECIATED YOUR VIEWS ~~B~~UT IF PIPELINE GOES AHEAD AND IF AS YOU SAY IT IS STRATEGIC RATHER THAN ECONOMIC WOULD ASSUME IRAQ ATTACHES SOME IMPORTANCE TO IT AND THEREFORE LIKELY IT WOULD BE FULLY COMPLETED. IN WHICH EVENT IS IT REASONABLE TO ASSUME REPAYMENTS WOULD BE HONOURED GIVEN SUPPOSITION WHICH SEEMS REASONABLE THAT IRAQ'S FINANCES ARE, AND WILL BE ADEQUATE.

Mr Burton

With the compliments of

INDUSTRY, SCIENCE & ENERGY DEPARTMENT

Miss Gosling.

Enter Oil in Iraq

ESB 13/8

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH 19

NSB 18/9
pa

G. BURTON ESQ
FCO
36

NBR 12/7

WITH COMPLIMENTS

I.C. Scott

Miss Gosling
I believe we already have a copy of this on file?
NBR 13/8

EXPORT CREDITS GUARANTEE DEPARTMENT
P.O. BOX NO. 272, ALDERMANBURY HOUSE,
ALDERMANBURY, LONDON EC2P 2EL

Miss Gosling - Registry
Pse enter Rumaila/Haditha pipeline
(Oil in Iraq) a copy to Mrs Kimble
Economists Dept. 10/8
Done RAc. Mr. Burton

(37) (38)

RECEIVED IN
REGISTRY No.35
13 AUG 1973

NBR 12/7

CYPHER

NO DISTRIBUTION
~~DT VIC ST~~ FRD
~~DTI ADELPHI~~ ~~TRD~~
ECGD ~~EPD~~
GEOG DEPT MED RK 129
~~MID~~

RR BAGHDAD

GR 230

CYPHER CAT A

FM ECGD 091545Z

COMMERCIAL IN CONFIDENCE
TO ROUTINE BAGHDAD TELNO EXCED 030 OF 9 AUGUST.
FOR DONOVAN FROM SCOTT.
(28) YOUR EXCED 24 OF 2 AUGUST.

1. WE NOW KNOW EXIM HAVE INDICATED WILLINGNESS TO COVER 10 YEARS TERMS FROM COMPLETION SUBJECT TO GUARANTEE FROM GOVT OF IRAQ. CO-FACE ALSO ARE PREPARED TO CONSIDER COVER BUT ONLY ON 5 YEARS TERMS.
2. WILLBROS DEFINITELY INTERESTED AND IN VIEW OF COMPETITION FEEL WE SHOULD CONSIDER COVER IF POSSIBLE THEREFORE WOULD APPRECIATE VIEWS AND INFORMATION ON FOLLOWING.
A. CONFIRMATION OF PURPOSE AS WILLBROS DO NOT UNDERSTAND IT TO BE OF STANDBY SWITCHING NATURE.
B. WHAT DOES PRECEDENCE OF OTHER TWO SCHEMES MEAN. FOR EXAMPLE ARE THEY TO BE COMPLETED BEFORE SUBJECT PIPELINE STARTS OR IS CONSTRUCTION MORE OR LESS SIMULTANEOUS WITH PAYMENT PREFERENCE FOR THE OTHERS.
C. HAVE APPRECIATED YOUR VIEWS BUT IF PIPELINE GOES AHEAD AND IF AS YOU SAY IT IS STRATEGIC RATHER THAN ECONOMIC WOULD ASSUME IRAQ ATTACHES SOME IMPORTANCE TO IT AND THEREFORE LIKELY IT WOULD BE FULLY COMPLETED. IN WHICH EVENT IS IT REASONABLE TO ASSUME REPAYMENTS WOULD BE HONOURED GIVEN SUPPOSITION WHICH SEEMS REASONABLE THAT IRAQ'S FINANCES ARE, AND WILL BE, ADEQUATE.

ECGD

NNNN

(32) (39)

A/CJB

11 August 1973

Commercial in Confidence

Mr S W Gardiner
CRE Dept
DTI
1 Victoria Street
London SW1

<u>Constructors John Brown</u>

no ref.

1. Thank you for your telegram CREDA 62 of 26 July giving notice of the visit of Mr A Mc Laren, managing director of CJB.

2. Mr Mc Laren, accompanied by Mr M R E Hill, a director of CJB (Projects) Ltd, and Mr I T Pritchard, a project manager with the same company, duly arrived in Baghdad in the early hours of 31 July. I happened to be at the airport at the time, collecting our weekly confidential bag. They went straight up to Kirkuk and had discussions with ICOO, who had invited them to Iraq. They were asked to quote for work on the expansion of the Kirkuk oilfields and of the Syrian pipeline, much of which we had assumed had already been awarded to the French firm Entrepose. ICOO had also asked them to quote for a lot of construction equipment.

3. The visitors called on me on 4 August and told me the above. Mc Laren, who returned home next day, asked me about ECGD financial guarantees for big projects in Iraq and I was not very encouraging. He said he would be talking to Bob Fell about this shortly after his return to London.

4. Hill and Pritchard then made a quick visit to Basra, where CJB are doing a lot of work for Basra Petroleum Company's expansion, providing technical personnel and supervising contracts. Before going they asked me to arrange appointments for them with the State Consulting Company for Oil Projects, and the State Organisation for Industrial Design and Construction regarding the petro-chemicals project (the first stage of which has, I believe, already gone to the French). We were able to arrange these for 6 August, and Mr Hill told me he had useful discussions at SCCOP. I did not hear how he

cont/..

Commercial in Confidence.

get on at SOIDAC before he left next day. Pritchard is likely to be in Iraq a good deal, supervising CJB's work for BPC.

5. I am copying this letter to Scott in ECGD and Burton in Middle East Dept, FCO.

P Donovan

copied to:

I C Scott, ESQ
ECGD

G S Burton Esq
Middle East Dept, FCO

(41)

Foreign and Commonwealth Office
London SW1

Telephone 01- 930 8440 ext 270

J R Bretherton Esq
Oil Policy Division
Department of Trade and Industry
Thames House South
Millbank
LONDON SW1

Your reference

Our reference NBR 12/7

Date 14 August 1973

Dear James

IRAQ COUNTRY BRIEF

(26) —1 Thank you for your letter of 25 July and its enclosure.

2 I am attaching separately the few comments and suggested amendments I have on the paper.

3 I look forward to receiving a copy of the final version and wonder whether it would also be possible to send copies to Patrick Bannerman in Research Department and Mrs Kimble in Economists Department.

Yours ever

Graham

G S Burton
Middle East Department

16/8

SUGGESTED AMENDMENTS

Summary, Page 3, Paragraph 10, Line 2:

Delete "(excluding Libya)"

Summary, Page 3, Paragraph 10, Line 5.

Delete "are also members" and insert "is also a member".

Chapter F, Page 20, Paragraph 43, Line 1.

Delete "very"

Chapter F, Page 20, Paragraph 43, line 3.

Before "Chairman" insert "Vice-"

Chapter F, Page 20, Paragraph 44

Should be redrafted to read:

"Iraq has bad relations with most of its neighbours; our own relations with the Government, which had been cool for some years, worsened considerably towards the end of 1971, the Iraqis eventually breaking off diplomatic relations in December, accusing HMG of collusion with the Iranians over the Gulf Islands issue. Despite their apparent desire to maintain their cultural and commercial links with us, the Iraqis have as yet made no move towards a resumption of full relations".

Chapter F, Page 20, Paragraph 45

First sentence should read:

"The Iraq Government have for some time had good relations with the Soviet Union, and with the Eastern Bloc generally, and an Iraqi/Soviet Treaty of Friendship and Co-operation was signed on 9 April 1972."

Chapter F, Page 20, Paragraph 45

Second sentence should begin:

"The Treaty provided for ...."

Chapter F, Page 20, Paragraph 46, Line 2

Amendment as in paragraph 10 of Summary.

PS. Paras ~~8~~ 9-11 and Annex 3.
ERAP/ELF. Hasn't Sumitomo Oil bought into the French concessions?

With the compliments of

ROYAL SWEDISH EMBASSY
British Interests Section
BAGHDAD

Enter "Oil in Iraq"
[illegible] 13/8

[illegible] 18/9

J. S. Burton Esq
Middle East Dept.
F.C.O.

ADVANCE COPY
ECGD
FILE
(33)
(42)

GR 180

CYPHER CAT A
FM BAGHDAD 200500Z AUGUST
COMMERCIAL IN CONFIDENCE

RECEIVED IN REGISTRY No. 35
21 AUG 1973
NBR 12/7

(2)
Mr Smith

TO ROUTINE ECGD TEL NO EXCED 26 OF 20 AUGUST
FOR SCOTT.
(37) YOUR EXCED 30.
RUMAILA - HADITHA PIPELINE.
1.
YOUR 2A.
IT IS DESIGNED AS A SWITCHING SYSTEM.
ON ITS OWN IT DOES NOT CONTRIBUTE TO EXPORTING FACILITIES.
IT NEEDS FURTHER PIPELINES AND TERMINALS AT EITHER END
TO DO THIS.
2.
YOUR 2B.
DEVELOPMENT OF SOUTHERN FIELDS AND MARGINAL EXPANSION
OF NORTHERN FIELDS AND SYRIAN PIPELINE ARE ALREADY UNDER
WAY.
NEW PIPELINE TO TURKEY IS IN VERY EARLY STAGE BUT IT WOULD
PROVIDE NEW EXPORT OUTLET WHICH STRATEGIC PIPELINE
DOES NOT, UNLESS IT IS SUPPLEMENTED BY DOUBLING OF CAPACITY
OF SYRIAN PIPELINE OR OF DEEP WATER TERMINAL IN GULF.
CONSTRUCTION OF STRATEGIC PIPELINE MAY BE MORE OR LESS
SIMULTANEOUS WITH OTHER PROJECTS MENTIONED AS CONSIERABLE
PRECEDENCE IS GIVEN TO IT BY IRAQI AUTHORITIES LARGELY
ON POLITICAL GROUNDS.
3.
YOUR 2C.
IRAQ'S FINANCES SHOULD BE ADEQUATE.
CRITERION FOR FINANCIAL GUARANTEE UNDER SECTION II HOWEVER
IS OUR NATIONAL INTEREST AND NOT JUST GETTING THE BUSINESS
AT SUBSIDISED RATES OF INTEREST.
SUGGEST YOU CONSULT FCO AND DTI BEFORE DECIDING ON COVER.

DONOVAN
BT

G Bu[illegible]h Esq
Middle East Dept
FCO
King Charles St
London SW1

With the compliments of

ROYAL SWEDISH EMBASSY
British Interests Section
BAGHDAD

19 AUG 1973

17-8-73

RECEIVED IN REGISTRY No. 35
30 AUG 1973
NBR 6/302/1

Baghdad Observer

RCC ratifies Iraqi-Indian technical cooperation agreement

The Revolutionary Command Council ratified the economic and technical cooperation agreement concluded in New Delhi with the Indian government early last April.

Following is the text of the Law ratifying the agreement which was published yesterday in the Official Gazette.

"In accordance with the Provisions of Para 8 of Article 42 of the Interim Constitution and pursuant to the approval of the President on the proposal of the Ministry of Oil and Minerals, the Revolutionary Command Council decided in its meeting held on the 5th of August 1973 to promulgate the following Law.

LAW No. 85 of 1973

Ratification of the economic and technical cooperation agreement between the Republic of Iraq and the government of India signed in New Delhi on the 6th April, 1973.

ARTICLE 1: By this Law, the agreement concluded between the government of the Republic of Iraq and the government of India on the economic and technical cooperation signed in New Delhi on the 6th April, 1973, shall be ratified.

ARTICLE 2: This Law shall be published in the Official Gazette and the Ministers shall see to the implementation of its provisions.

Ahmed Hassan al-Bakr
Chairman of the Revolutionary Command Council

The preamble of the Law said that the Law was promulgated in implementation of the desire of both the Iraq and Indian governments for developing and consolidating the economic and technical cooperation between them.

~~SAD~~

Thank you
CHJ.
24/8

24/8

copy under comp. to
S W Gardner Esq. CRE DTI
I. Swift Esq ECGD
G. Burton Esq MED FCO
Commercial Dept New Delhi
DD 19/8
then p/w India Iraq Trade File in B15

oil

9

THE GUARDIAN

cutting dated 20 AUG 1973 19

FS/3
R&S
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Sw/W

RECEIVED IN
REGISTRY No. 35
21 AUG 1973
NBR 12/7

India and Iraq in oil talks

Bagdad, August 19

Formal talks on oil, as well as general economic and technical cooperation, between Iraq and India began here today, the Iraq news agency reported.

The delegations were led by the Ministers for Oil — Dr Saadoun Hammadi for Iraq, and Dr D. K. Baruah for India. The agency said they discussed the possibility of Indian experts helping in the carrying out of Iraqi development projects and the conclusion of bilateral agreements in the various fields.

pa 8.

Baghdad Observer.

Indian firm to exploit oil in southern Iraq

At the Ministry of Oil and Minerals a service contract was on Wednesday evening signed by the Iraqi National Oil Company and the Indian Oil and Natural Gas Authority.

The contract was signed by Dr. Saadoun Hammadi · Minister of Oil and Minerals in his capacity as Chairman of INOC. It was signed on behalf of the Indian side by Mr. B.S. Vici, Chairman of the Indian Oil and Natural Gas Authority.

The contract provides for the Indian firm to exploit District No. 1 in Southern Iraq.

Speaking after the signing ceremony, Dr. Hammadi said that agreement on the broadlines of the contract was reached during the visit made to India by an Iraqi delegation in April last. The contract constituted an important landmark along the road of cooperation between Iraq and India, he added.

Dr. D.K. Borooah, Indian Minister of Petroleum and Chemicals, commenting on the signing of the contract said the contract represented a major accomplishment to both the Iraqi and Indian companies. The agreement reached between the Indian oil authority and the Iraqi National Oil Company was a vital agreement "because we are suffering from shortages in crude oil", the Indian Minister said.

INDIAN MINISTER VISITS ICOO PREMISES IN KIRKUK

The Indian oil delegation headed by Mr. Borooah, Minister of Petroleum and Chemicals yesterday morning paid a call at the premises of the Iraqi Company for Oil Operations in (ICOO) in Kirkuk. The delegation was greeted by ICOO acting Chairman Sd. Abdul Amir Taqi and other senior company officials.

Sd. Taqi put the visitors in the picture about the operations concerning the production and marketing of oil. He also reviewed the major changes that have taken place since the historic oil nationalisation act.

The Indian Minister expressed himself impressed by what he saw and said that Iraq has set a high example to oil producing countries in Asia and Africa when it nationalised the monopolistic IPC.

Speaking in an interview with INA Mr. Borooah said he could say with certainty that the ICOO personnel will meet their strategic targets.

After lunch, the Indian Minister and his delegation left for Nineveh. —INA

Copy under comps please to
G. Burton Esq. Middle East Dept FCO
Commercial Dept., New Delhi,
25/8
the p/w B.I.S. file India - Iraq Trade

45
Ewter.

CC
H of C
Mr Tunnell
Mr Kinchen o.r.

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REGISTRY No. 35

NBR 12/7

Copy to Energy Dept.
Petroleum Div. DTI
1019

cc
Middle East
Department
FCO

KUWAIT/IRAQ

1. Mr A J A Gillan, General Manager of the Basra Petroleum Company, came to see me on 1 September. On the general question of the atmosphere in Basra he said that there had been a perceptible increase in cordiality and readiness to deal with the West in recent months. Officials at the level he dealt with were noticeably more affable and forthcoming and Iraqi friends were once again prepared to be seen in his company. There was a corresponding disillusion with the Soviet bloc. The Czechs, despite an army of about 1,500 expatriates were two years behind schedule on the Basra refinery project. Western companies were being invited to tender not only for the expansion programme being undertaken by the Basra Petroleum Company but also by the National Petroleum Company. He remarked, incidentally, that the American Santa Fé Company which had done most of the construction work on the expansion of the BPC loading terminal at Khor al Amaya had based its operation largely on Kuwait in co-operation with CONCO.

2. He gave me the following particulars of BPC's capacity. Work on the first stage of the expansion of the Khor al Amaya terminal had recently been completed. BPC's export capacity had thereby been raised to 720,000 barrels per day and they had every hope of being able to realise that figure in practice. They planned to raise this capacity to 1,650,000 barrels per day by the end of 1975. This represented output capacity from their concession only. It did not include present or projected production from the National Oil Company's north Rumaila area.

3. Before the expansion the Khor al Amaya terminal had been able to take tankers of 130,000 tons. With the third berth recently completed they could now handle tankers of 330,000 tons though only with a partial load of 250,000 tons. There was 70 ft. of water at the terminal and in the channel and a tanker with 250,000 tons on board could move only at high tide. There was no prospect of improving this significantly on the present site and BPC had no plans for any alternative sea terminal.

4. The National Oil Company planned to build a similar terminal in the Khor Khafka, which runs parallel to the Khor al Amaya and nearer to the Kuwaiti coast. This made sense, despite the apparent duplication, because although neither channel was markedly better than the other, neither could take

/an...

an unlimited volume of shipping and both would be needed if the Iraqis were to achieve their declared aim of exporting 80 million tons per annum from their southward sea terminals. Mr Gillan thought that the Khafka channel was, marginally, not so good as the Amaya channel: the terminal there might have to be sited further out than the 20 miles which was needed for the Khor al Amaya terminal.

5. Mr Gillan said that the Iraqis appeared to be intending to develop an export capability for 120 million tons of oil a year from the southern terminals. He thought that this volume was greater than could be produced from the BPC and North Rumaila fields; and he therefore assumed that the projected north/south pipeline was intended to enable Iraq to export oil from the northern field southwards if necessary. He said that the pipeline across Syria was also being expanded; and recently there had been an announcement of the signing of a protocol for another pipeline northwards through Turkey. It appeared that the Iraqis were aiming at something like total flexibility to export their output northwards or southwards at will.

6. I asked him what he thought were Iraq's motives for pursuing their territorial claims against Kuwait and he said that he supposed they were activated primarily by the desire to be able to defend their sea terminals, particularly the new one planned in the Khor Khafka; and also by the desire to increase their area of the headwaters of the Gulf, where international boundary lines had not yet been drawn.

2 September 1973 A J Wilton

G Burton Esq
Middle East Dept
FCO
London SW1

With the compliments of

THE COMMERCIAL SECRETARIAT

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-3SEP1973
NBS 3/304

British Interests Section
XXXXXXXXXXX
BAGHDAD

3/9
pa

OK - a new step in Iraq/Indian relations.

3/9

MT

(46)

NEW DELHI.

ECO6/102

FOREIGN AND COMMONWEALTH OFFICE
17 SEP 1973
ALLOCATIONS SECTION

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REGISTRY No. 35
20 SEP 1973
MBR 12/7

12 September 1973.

Commercial Secretariat
British Interest Section
Royal Swedish Embassy
Baghdad.

Mr Burton MED. - We spoke. The only reference I have seen is in P/W attached.
[initials] 12/9

Miss Gosling
Pse enter/or flag up previous pps on the subject
17/9

INDIA/IRAQ OIL

I am enclosing a copy of a recent press cutting which indicates that Iraq is backing down somewhat on the oil deal with India. Are you in a position to confirm or deny this story? I would be grateful for your comments.

D M Lawrence

mf.

cc: CRE

Oil Dept.
FCO.

Statesman 7/9/73

IRAQ GOES BACK ON OIL DEAL

From Our Special Representative

NEW DELHI, Thursday.—Iraq's agreement in principle to supply India 112 million tonnes of crude oil over a 12-year period beginning April 1976 has proved to be short-lived. Iraq is now apparently unwilling to enter into a long-term contract for this quantity of oil.

After the discussions the Iraqi Minister of Oil and Minerals, Dr Sadoun Hammadi, had here in the first week of April with Mr D. P. Dhar and others, a joint statement was issued which envisaged "commercial exchanges including supplies of crude oil." Though no quantity was mentioned, the agreement was that Iraq will supply 30 million tonnes of crude oil over a 10-year period beginning with the commissioning of the Mathura refinery.

Later the same month, official sources indicated here that Iraq had communicated its willingness to supply 112 million tonnes of crude oil over a 12-year period beginning April 1976.

These imports from Iraq were supposed to take care of the crude requirements of the proposed refineries at Mathura and Goa.

But during the visit of Dr D. K. Borooah, Minister of Petroleum and Chemicals, to Baghdad last month, it became apparent that Iraq did not want to commit herself to the supply of such large quantities of crude oil to India on a long-term basis.

CUT BY TWO-THIRDS

It is reliably learnt that as against the 112 million tonnes talked about earlier, Iraq might be willing to make firm commitment only for about one-third of this quantity.

This will upset India's plans because she will have now to look elsewhere to meet the full crude needs of even the Mathura refinery, which will alone need seven million tonnes a year. Mathura refinery was expected to be based entirely on Iraqi crude.

Though Mr Borooah has not stated anything after his return from Baghdad about crude supplies from Iraq, it is understood he had signed an agreement on August 23 specifying the price formula, quantity, payment terms for the long-term supplies.

For supplies to be lifted in 1974, the price is yet to be determined and Iraq is understood to have made it clear that she could discuss the question of price only next month. This is significant because there is a meeting in Geneva later this month of the Organization of Petroleum Exporting Countries (OPEC).

CONFIDENTIAL

Most interesting.
7/9

Mr Burton

R. Hunt
7/9

Mr Young
10/9

With the compliments of

Mr Wright
cv.

HER BRITANNIC MAJESTY'S

~~EMBASSY~~

Ambassador

2 September 1973

11/9

KUWAIT

Para. 6 is interesting. We have hitherto thought that it was to secure + protect access to Umm Qasr.

THE TIMES

cutting dated 26 SEP 1973 19

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NB
~~SMC~~
~~Sus~~

IRAQ
OIL

22/7

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REGISTRY No. 35
1-OCT 1973
NSR 12/7

Iraq plans to sell oil products as well as crude

Beirut, Sept 25.—Iraq is reported to have prepared a plan to export oil products, rather than depend on crude oil exports alone to earn hard currency.

The plan is understood to call for doubling the capabilities of existing oil refineries as an initial phase. It envisages in later phases the building of new refineries in Iraq and elsewhere as joint ventures with neighbouring Arab countries or places as far as Algeria and Indonesia.

The Iraqi News Agency quoted an authoritative source at the Iraqi ministry of minerals and oil as saying the first phase of the plan was to start soon with the addition of a unit at the Basrah refinery in south Iraq. This would double its production to seven million tons a year.

The ministry was studying the idea of building a second refinery in south Iraq with a 10 million ton annual output. It would be one of several high-production refineries for which detailed studies are being prepared, primarily to meet demands of consumer markets such as Europe and Japan.
—AP-Dow Jones.

DRAFT

Addressed to:
Lord Carrington

Originated by:
(Initials and date)

28/9

Seen by
(Initials and date)

Type for signature of
Minister for Industry

....
(Initials and date)

Copies to:

Enclosures:

Form SS/29

File No. 53

8/10

CONFIDENTIAL

OIL FROM IRAQ

You may recall that I wrote to the Secretary of State for Foreign and Commonwealth Affairs and to ES colleagues on 8 August about a proposal by Shell for a European consortium to undertake, with Government assistance, large scale oil exploration and industrial development in Iraq.

Shell have since had a preliminary talk with the Iraqi Minister of Oil and have now suggested a modified proposal which does not directly involve Governments. It has, nonetheless, considerable political and economic significance. Shell would like to know the attitude of HMG towards the project in time for an initial written proposal to be put to and discussed with the Iraqi Minister of Oil in Vienna on 8 October.

I should like, therefore, to put in a paper on the proposal, for consideration at the next meeting on 5 October of the Task Force on oil supplies, and I should be glad to know if you are agreeable to this. The FCO is meanwhile seeking through our posts in the countries concerned views on the likely attitudes of the other Governments whose companies would be undertaking the project.

(027/D)/940424 SM 12/71 T.P. Gp.659

RESTRICTED

(47)

BRITISH EMBASSY

PARIS

12 September 1973

RECEIVED IN REGISTRY No.35
14 SEP 1973
MBR 12/7

B Smith Esq
Middle East Department
FCO

Mr. Buxton
14/9
PA (oil in Iraq)

Dear Brian

ELF ERAP AND IRAQ

1. I recently had an opportunity to ask Brejon, a Quai d'Orsay official seconded to ELF ERAP, how their activities in Iraq were developing, following the signature of the IPC Agreement. He said that, the threat of legal measures by IPC members having been lifted, they were now pressing ahead to bring the Buzurgan field into production by about the end of 1975. The critical factor was likely to be the ability of the Iraqis themselves to bring associated port facilities into operation on time. Production from the field is likely to be about 10 million tons annually. This is, of course, a very substantial quantity for a firm like ELF ERAP, whose resources last year were somewhere in the region of 16 million tons. The terms of their agreement with the Iraqis mean, however, that they have an absolute right to only 30% of this, though they hope that the Iraqis will agree to some kind of "buy back" arrangement to increase the proportion to 50%. The picture is further complicated by an arrangement whereby a Japanese firm has a 40% investment in the field, which will be repaid in the form of a right to that percentage of the proportion of oil produced which does not belong to the Iraqis.

MBR 12/10

Yours ever

Robert A

(R J Alston)

c.c. R N Dales Esq
Energy Department
FCO

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IRAQ PETROLEUM COMPANY, LIMITED

33 CAVENDISH SQUARE LONDON WIM OAA

TELEPHONE 01-629 9405 TELEX 22266

TELEGRAMS Inland PETRIRAQ LONDON TELEX Foreign PETRIRAQ LONDONWI Code BENTLEY'S SECOND PHRASE

General/786/C

20th September, 1973.

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11 OCT 1973
NBR 12/7

Mr. G. Lockton,
Energy Department,
Foreign & Commonwealth Office,
Downing Street East,
London, S.W.1.

Reg: Cc to Mr Burton MED & return to me pse
8/10

Dear Lockton,

Iraq Oil Development Plans

I was asked to put a paper together on this subject the other day and think you may like to have a copy of it.

Yours sincerely,

Nick Fallon

Enter Iraq Oil

(N.R. Fallon)
Economics Department

Enc.

IRAQI OIL DEVELOPMENT PROGRESS

This note assembles information up to 1st September 1973, which has been published from Iraqi sources. The reports are confusingly repetitive and sometimes contradictory, and suggestions of how they may be disentangled are only occasionally possible.

Part I - EXPLORATION AND DRILLING

A. Concession/Contract Areas (see attached map)

Iraq has recently invited bids for "1973 Areas" (MEES 20/7).

Previous similar offers have been made, and maps showing them were reproduced in MEES of 4/9/70 and 3/3/72.

India signed a contract on 22 August 1973 for area (1) of the INOC 72 areas (INA 22/8, after various earlier reports), approximately 4000 sq. km. India has said its commitment is 91 million Rupees, approximately I.D 3.5. million.

Brazil finally signed an ERAP-style contract on 6 August 1972 (Platt's 9/8 after reports that survey had started in May) and started work early December. Three areas have been described as Falluja-Baghdad, Kut-Iran frontier and east of Qurna (Bull 2/12/72) with the total given as 7900 sq. km. but not further defined.

Rumania, as part of its $35 million credit agreement of 28 October 1971, is reported to have signed contracts on various occasions for drilling in the East Baghdad and Jebel Hamrin areas, and for seismic work in these and the Diyala area. (INA 7/2/72, 6/7/72, 30/4/73; Bull 30/12/72, 30/6/73). References have been to 2 or 5 wells, and 1050 km. seismic line. No work has been reported.

Bulgaria under its £5 million credit agreement of 29 September 1970 is reported to have signed contracts for seismic and drilling in the north of Iraq (INA 11/4/72, Baghdad Radio 12/6/72, Bull 16/12/72), the last mentioning Mitiyah, Sufaiyah, Kand, Sassan and Raffan. Work has been reported as about to start (INA 23/3/72, Bull 30/12/72, MEES 30/3/73 and ? Bull 2/6/73) but not yet as having started.

The German Deminex was reported from Iraq in June 1972 as having signed a contract, but Deminex said it had only held general discussions.

B. Geophysics

Brazil started work in areas 2 and 3 of its concession in December 1972 with two French C.G.G. teams (Bull 24/3/73) and they were again reported in July (INA 26/7).

The last report on INOC (Bull 14/7) was that team 1 has completed work on West Luhais and after August would start north of Ur.

INOC team 2 was completing the Qurna-Nahr Umr area and after a break would resume south of Basrah. An earlier report said this team had amphibious equipment and was working in the Marshes.

Team 3 was reported with team 1. It is often not mentioned when the other two are, and its exact status is uncertain. It is noted that although the original June 1969 agreement called for five fully-equipped Soviet teams, the only definite report of a contract was of equipment for two seismic teams (Baghdad Observer 19/5/70).

The interpretation centre was working on Khabaz and Qurna, having finished its report on Rachi. The centre, with Soviet equipment was opened in October 1970 (Baghdad Radio 25/10). A well-logging team also Soviet-equipped started work with North Rumaila 4 in April 1971 (Bull 24/10/71).

C. Drilling

(i) INOC

INOC at the end of 1972 said it had six derricks and had ordered three more, and on 10/2/73 that its sixth rig arrived at North Rumaila 19.

In its Bulletin of 18/8 NORTH RUMAILA 27 was said being prepared, 26 rigging up and 25 and 24 spudded. It has done its first acidising job on 20, which was completed in April.

As numbered by BPC, the six wells cut off by Law 80 was 21, 35 and 37 producers, 31 and 34 observation and 38 incomplete. Although otherwise its sequence is complete there has been no mention of INOC drilling a 21, while preparation of a 38 for drilling has been announced (INA 30/4/73). At the inauguration of production Baghdad Observer (7/4/73) said of the ten wells linked into the first stage three had drilled by BPC, four by the Hungarians and three by INOC/Russians. The Soviet Ecotass said on 22/10/72 that it was assisting Iraqi teams to drill 22 wells on North Rumaila by 1974, and INA on 29/1/73 mentioned 34 Soviet experts.

On the northern continuation of the RUMAILA structure five wells were said to be planned in the "Al Ahwar" Marshland (Hor al Hammar) and later eight, of which concrete piling was complete on six (INA 7/4 and 2/5). Across the lake WEST QURNA 1 (BPC had referred to the area as Madina) is said to be "in progress" while a road to a second site has been started (Bull 11/8/73).

At LUHAIS where BPC had drilled one well INOC said on 16/12/72 that Luhais 1 was in progress; on 24/2/73 that Luhais 2 had reached final depth; but on 24/3 that Luhais 1 had tested flowing oil and site preparation for Luhais 2 had been started. On 30/4 INA said site work for Luhais 3 was in hand. On 2/6 INOC bulletin said Luhais 2 was drilling, and on 11/8 that Luhais 3 was nearing final depth.

At NAHR UMR BPC had drilled three wells, only one definitely a producer. INOC drilled its first well from November 1971 to May 1972 and an announcement was made of oil flowing from Nahr Umr 4 (MEED 9/6/72). On 16/12/72 preparations were being made for a 2nd well. On 24/2 and 2/6 its Bulletin referred to drilling in progress at Nahr Umr 5. On 11/8 it states a derrick is being erected on Nahr Umr 6.

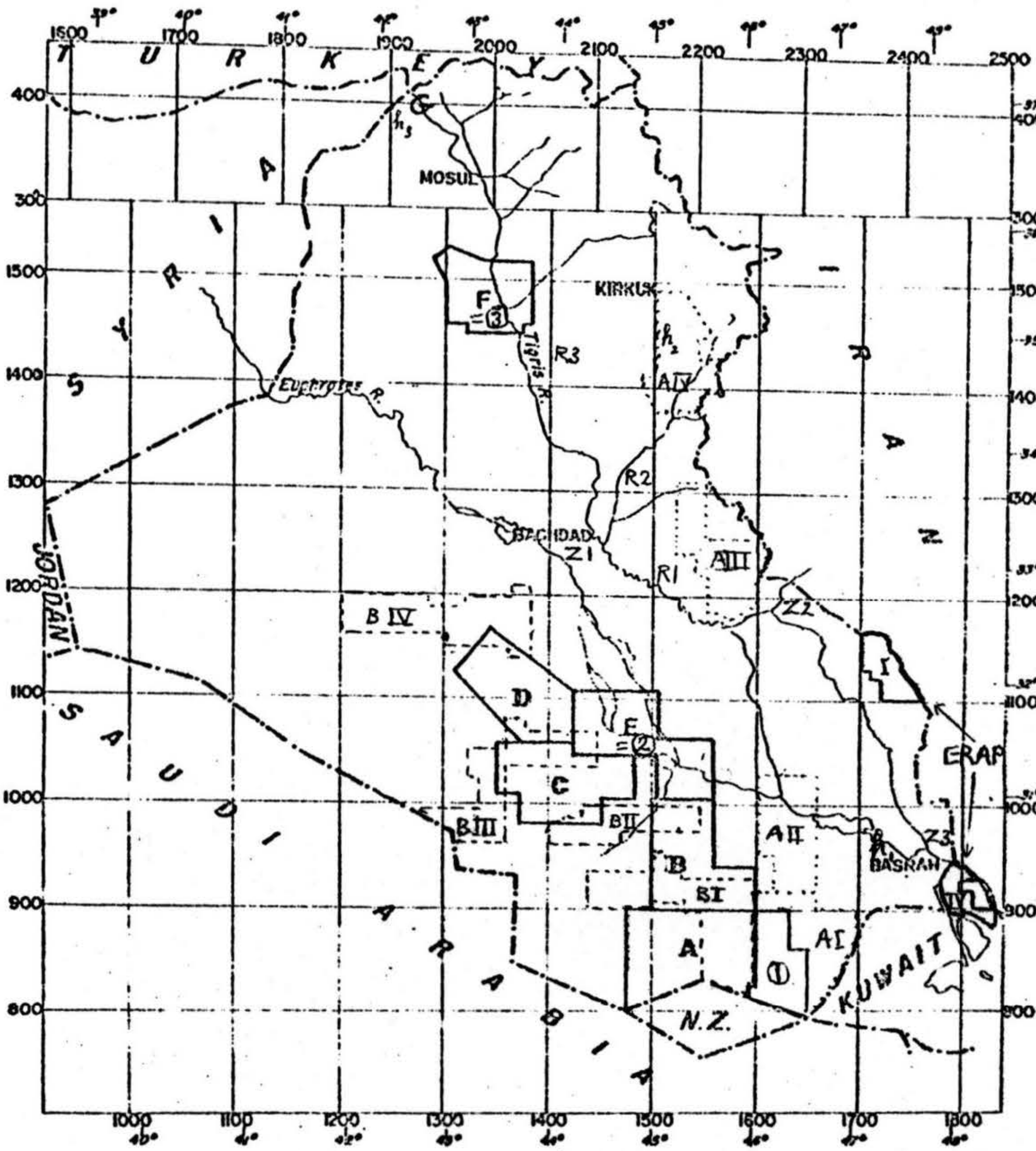
At RATAWI where there was an old BPC plugged well, INOC drilled a well January-July 1972 referring to it as Ratawi 2 (Bull 15/7). It has not been mentioned since.

(ii) <u>HUNGARY</u>

The first drilling contract with the Hungarian Chemocomplex organisation was for 4 wells on NORTH RUMAILA which were drilled between February 1970 and November 1971. The second contract (signed March 1971) followed for 3 JAMBUR wells and though reports are not clear seems still in progress; at any rate the second well, spudded in July 1972 was still drilling in February 1973 (Bull 24/2). A third contract has been discussed for further wells in the north (INA 30/4/73) and on 2/6 the Bulletin said the Hungarian organisation Technoexportstroy would shortly be ready to drill on Safia in the Nineveh Liwa. The firm's name however is the one that has on other occasions occurred in announcements about Bulgaria, in one of which Sufaiyah was also mentioned (see Contracts above).

(iii) <u>ICOO</u>

Although some reports state 4 Kirkuk wells have been drilled since nationalisation it is clear that at least one (Bull 30/12/72) of the four and perhaps to (MEES 8/6) has been on Bai Hassan. MEES then and also on 6/4 said ICOO had started a well aimed at 10 000 feet on Jebel Hamrin, where IPC had to leave a well uncompleted in 1961 - (but see Rumanian contract).



A B C D E F	Areas offered 1973	ERAP retained areas I and onshore IV
1 2 3	" " 1972	India allocated area 1
BI, II, III, IV	" " 1970	Brazil allocated Z1, Z3, Z3 (not defined
AL, II, III, IV	Areas in wrong map given to MEES	Rumania contracted R1, R2, R3 (not defined)
	18 February 1972, not otherwise explained	Bulgaria reported for area G
		Hungary drilling contracts h_1 h_2 h_3 (?)

LOCATION OF AREAS IN IRAQ

Part II - DEVELOPMENT PLANS - GULF EXPORTS

A. INOC Fields

INOC plans for North Rumaila have been almost consistently stated as three stages: 5 mta, 18 mta, 40-50 mta, with dates given as 1971 or 1972, 1974 or 1975 and 1976-79. The first stage was operational in April 1972, (although INOC Bulletin on 15 July mentioned the Soviet first-stage work was still incomplete) and there were further reports on details in Baghdad Observer of 5th and 7th April.*

Some details of projected investments were given in MEES 5/5/72 (table attached). However caution may be advisable: for instance Trade Statistics show import value of the pipe alone almost equal to "investment" in the Rumaila-Fao pipeline.

Signatures were reported several times in the latter half of 1972 and early 1973 of Iraqi-Soviet 'contracts' for the second stage and 'protocols' for the third. The 'contract' reports, apart from the drilling reference above, mention machinery, equipment and storage facilities, without any figures. In October both sides said the third stage would require another pipeline as the first one (28") had a capacity only of 20 mta. INOC Bulletin 30/12/72 said the third stage protocol provided that the Soviets would do preparatory work in the North Rumaila field and for the second pipeline, and construct additional storage at Fao, while INOC would procure the required pipe and arrange for the construction of a Deep Water Terminal.

The announcement of a contract for ID 1.5 mn to help develop Nahr Umr to 1.5 mta (INA 28/4/73) is the latest of a number similar (back to Bull 21/3/71). One Tass reference to a Baghdad-Basrah crude oil line appears a mistranslation as all other reports refer to it as a products line. A group of Soviet experts was said to be completing a report on oil and gas reserves of Iraq (Bull 16/12/72); earlier reports have said the same (Bull 8/7 and MEED 14/1/72) and no conclusions have been given.

B. ERAP Fields

The long-outstanding revision of the ERAP contract permitting development of the Buzurgan and Abu Ghirab structures in ERAP area I, announced as commercial at the start of 1970 (INA 14/1), was stated to have been agreed on 13/5/73. Production of 8 mta is to be piped 250 km. to North Rumaila where it will be taken into INOC's export system, while the "50% national reserve" provision has been dropped (MEES 18/5/73).

Agreement was also given for the sale of 40% of ERAP's half-share to Japanese interests, later identified as a group led by Sumitomo with Mitsubishi, Teikoku, and Japanese Petroleum Development and Exploration Companies (MEES 6/7/73). The quality of the oil (24° API, 4% sulphur) may have occasioned some doubts, as Qassab on a visit to Japan suggested the oil could be de-sulphurised in Iraq (INA 26/7/73).

Presumably Japanese interest means that plans to link Buzurgan into INOC's Mediterranean pipeline whether via Syria (Bull 26/9/71) or via Turkey (Platt's 26/2/70) are now dead.

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* See letters 9975/B and 9985/B of 11th and 13th April, 1972.

Table 2

Estimated Investment Under INOC's 1970-81 Program
(Million Iraqi Dinars)*

Project	Cost
Purchase of drilling rigs	4.7
Purchase of geophysical equipment	1.4
Vocational training center	0.5
Laboratories	0.3
North Rumaila field	58.2
Nahr 'Umar field	4.0
Qayara field	0.1
Ratawi field	6.3
Jambur field	35.3
Luhais & Raji fields	8.4
Halfaya field	13.1
Khanaqin field	3.7
Dujaila & Mihanya fields	6.3
South Rumaila field extensions	5.3
Kafel field	7.9
Erap and other zones	72.0
Deepwater terminal	25.0
Iraq-Mediterranean pipeline	146.0
Gas development projects	0.3
Studies	10.0
Exploration	14.9
Total	423.7

* ID 1 = $3.04

Table 3

Projected Investment for North Rumaila Field 1970-80
(Thousand Iraqi Dinars)

Project	Cost
Drilling of 35 wells on dry land	7,966
Drilling of 24 wells in the Al-Ahwar marshland	13,550
Wellhead equipment	750
Degassing stations	17,635
Rumaila-Fao pipeline	2,409
Nukhaila operations center	365
Fao maintenance center	50
Dwellings	2,000
Roads	450
Gathering network	4,500
Storage tanks	650
1 pumping station	1,500
Civil engineering works	2,250
Water supply	1,106
Electricity	490
Railway	100
Telecommunications	55
Repair workshops	100
Reserves	2,250
Total	58,200*

* The timing of this investment is estimated as follows: 1969-70, ID 4.9 million; 1971, ID 13.5 million; 1972, ID 7.2 million; 1973, ID 4.4 million; 1974, ID 0.1 million; 1975, ID 9.6 million; 1976, ID 7.2 million; 1977, ID 3.8 million; 1978, ID 3.3 million; 1979, ID 2.1 million; 1980, ID 2.1 million.

C. Deep Water Terminal

After studying the project of a new deep water terminal for some time (e.g. MEES 12/4/68) INOC in May 1971 contracted for a feasibility study with ERAP (INA 10/5), saying the project was to be completed by 1974. In August ERAP said it had begun surveys for a terminal of 500 000 b/d capacity able to take tankers over 200 000 tons. In April 1972 ERAP's report was expected (Bull 19/4) and shortly afterwards INOC said tender documents had been prepared for issue (Bull 25/5).

In July 1972 INOC's Chairman visited Japan and there were various reports of Nippon Steel being offered a $100-120 million contract for a complete terminal installation including sea-lines and onshore facilities (FT 20/7). One report said Nippon Steel had undertaken a feasibility survey and sent a team in August 1972.

INOC was reported to have completed in studies in April 1973 for a terminal in "Khor Khafji" 40 km. from Fao, ready for the 18 mta stage in April 1974, and later that eventual capacity was to be 80 mta and that CFP were acting as consultants (MEES 6/4, 27/4). INOC denied the last but confirmed bids had been called for by 16 June (Bull 9/5). PIW, but no ME source, had reported that the INOC/Soviet protocol of December 1972 had set the second half of 1975 for the DWT to be ready (15/1/73).

Bids were received from Snam, Brown & Root, Entrepose and Nippon Steel (Platts 22/6). MEES (20/7) confirmed several bids were received, also saying that estimated cost was ID 18 million, initial capacity was 25 mta, rising to 40, and that it was "designed for six 350 000 dwt tankers at once".

Part III - DEVELOPMENT PLANS - MEDITERRANEAN EXPORTS

A. Ex-IPC Pipelines

It was announced that Iraq and Syria had signed an agreement on 12/6/73 for an advance of ID 6.5 million, to be repaid from transit dues, for work in Syria by an international contractor as part of a larger project in Iraq (Bull 30/6).

The Iraq side includes new wells, a 240 000 b/d stabilisation unit and expansion of the water injection scheme. New turbine pumps are to be installed.

2 at K1	1 at T2
4 at K2	2 at T3
3 at T1	1 at T4

It is aimed to increase capacity from 1.2 to 1.4 million b/d. CFP is consultant and has recommended Entrepose as contractor while a contract for the pipes has already been awarded to Comptoir Franco-Belge des Tubes (MEES 6/7 and 13/7/71).

B. North Rumaila - Syria line

After many reports over the years, the last words were in the Baghdad Observer of 9/1/73: "Syria's action (in raising transit dues) has now deprived the plan of all its merits, and a Kirkuk-Gulf pipeline is now considered essential".

C. Turkey Pipelines

Iraq was reported to be discussing with Turkey a crude oil pipeline to Dortyol, at the head of the Gulf of Iskanderun, in February 1970 (Platt's 26/2), and at intervals there have been further reports. After some difficulties INOC gave Snam a contract for a general survey and feasibility study (MEES 13/10 and 29/12/72).

On 27/8/73 Iraq and Turkey signed an agreement for the construction of a pipeline from Kirkuk to Dortyol with initial capacity 25 mta and final 35. Transit dues were reported fixed at 35 cents/barrel. Each side will cover the expenses of construction within its own territory, total estimated at $250 million (INA) or 350 (Baghdad Observer) and tenders will be considered in co-ordination between the two countries. A further protocol is due within six months after detailed discussions. It has been added that the line will be 40" with 475 km. in Iraq and 650 in Turkey and is to be complete in 1976 with the increase to 35 mta in 1980/83 (MEES 31/8). The Financial Times (29/8) reported from Ankara that interest had been expressed by twelve construction companies including Costain John Brown, Taylor Woodrow, Entrepose, Spie Batignol, Mannesmann, Bechtel and the Italian Saimpre, and by fifteen manufacturers of pipe. Tender documents are due to be issued by Snam in November to a short list for return within six weeks.

A natural gas pipeline to Turkey is a still older project, the first protocol having been signed in 1967 (INA 7/4/67). In July 1971 Turkey cancelled a feasibility study which had been agreed in January, but were talking again before the end of 1971. The route and quantities proposed have varied somewhat but were last mentioned as 300 MMcf/d Kirkuk-Batman (The Times, from Ankara, 2/8/72). Natural gas does not appear among the subjects discussed by various delegations exchange since then.

Part IV - OTHER PLANS

A. Natural Gas

Besides the Turkish project, the Swiss firm Chemico (subsidiary of the New York company) was commissioned in June 1971 to make a feasibility study of export possibilities from South Iraq (MEES 25/6/71) and it was almost complete by May 1972 (Bull 27/5). In February Chemico had been reported looking for markets and finance for the project (MEES 25/2). It is to be noted that reports emanating from Iraq usually speak of LNG whereas visitors to BPC have described the project as LPG.

Chemico is now reported to have a contract to design and prepare tender documents "to include a booster pipe network of LNG between the degassing stations of North and South Rumaila and Zubair as well as the liquefaction plant". (Bull 28/7/73).

Mitsubishi, correcting a confused report, stated it had signed a contract for its own account to take 1.2 mta of LPG for 15 years from 1976 (MEES 24/8/73).

B. Refineries

Since February 1972, when a Czech source reported delays on the BASRAH Refinery, the project had not been mentioned until a recent report of a meeting which prepared a list for the functioning of the refinery before the end of the year (INA 20/8/73).

The last definite item of news on the MOSUL refinery, for which the Soviet contract was reported signed on 5/4/72 (MEES 7/4) was that three Soviet experts had arrived to prepare plans at a cost of 1.1 million roubles (the refinery was called Hammam al Alil; INA 8/2/73). It is to contain desulphurisation and gasoline blending units as well as distillation and is to be supplied by pipeline from K2 while design will permit the capacity of 1.5 mta to be expandable up to double. The cost was stated to be ID 25 million, but later less than half that (Bull 10/2, 24/2/73).

The first Autostill unit in Kirkuk was reported operating (INA 8/2/73) and the second being tested (Baghdad Observer 19/3).

There has been only a passing reference to the Baghdad-Basrah products pipeline for which a Soviet contract was reported signed in May 1971 (INA 27/5) and was frequently mentioned in 1971/72 (e.g. Bull 9/9 and 18/11/72) though with never a figure.

C. Miscellaneous

The last of the seven 35 000 ton tankers "Buzurgan" is due for delivery in Cadiz in September. Iraq is now planning to invite tenders for four 120 000 tonners (Bull 25/8/73).

The Spanish spiral-well pipe plant at Umm Qasr was reported about to start tests. It was stated to have cost $6 million and be capable of producing pipe from 219 to 1028 mm diameter. Annual capacity was given as 20 000 or 2000 tons (INA 8/2 or 10/2/73).

There are plans for a plant in Basrah to use 120 MMcf/d to produce ethylene for plastics manufacture at a cost of ID 60 million (INA 4/3, 14/4 and 17/4/73). Melamine and formaldehide have also been discussed (INA 8/3/73). One report of a French plan to produce whisky from dates has not been repeated (INA 5/3/73).

At the Polish sulphur extraction plant at Mishraq the second stage is now reported functioning raising capacity to one mta. Its cost was ID 6 million making the total now ID 16 million and the project has taken 48 months. Of 380 000 tons produced so far 60 000 have been used in Iraq and 120 000 exported to India, Pakistan, China and North Korea leaving 200 000 in store (INA 23/8/73). Loading of 200/300 tons per day in trucks has started for a contract to deliver 60 000 tons to the Lebanon Chemical Company (INA 27/8/73).

D. USSR Loans

The figures in the two Iraq-USSR agreements on 21 June and 4 July 1969 of 72 million dollars and 60 million roubles, then equivalent to ID 25.7 and 23.6 mn, have been very frequently quoted, not to mention the apparently additional "loan" of 200 million roubles (ID 78.6 mn) of 8/4/71. It is interesting therefore that USSR Trade Statistics show exports to Iraq of oil exploration and production equipment totalling 9.4 million roubles in 1971 and 2.2 in 1972, or ID 3.7 and 0.9 million (O.G.J. 20/8/73). Iraq Trade Statistics, not quite so clearly defined, show 1970 imports of equivalent categories between ID 5.1 and 5.4 million, while they did not start in 1969. So material supplies under the agreements had not exceeded ID 10 million at the end of 1972.

Alternatively, one of the main contracts with the USSR, covering the exploration and drilling, was $11 mn, or ID. 4.0 mn, when the detailed agreement was signed on 19/5/70, having been put at $9.5 mn originally, and the other, covering all of the first-stage North Rumaila development except the supply of pipe (purchased from France), was ID 12 million. Three small contracts reported may add $3.6 or ID 1.3 million (or might be subsidiary to the main ones) but reports of civil engineering works sub-let by USSR to Iraqi contractors, so becoming directly payable by Baghdad, add up to ID 2.7 mn. The total credits granted so far under the loan agreements, including technical aid, may be perhaps ID 14.6 million.

E. Oil Exports

No figures have been issued from Iraq since early June. Then it was stated that Banias and Tripoli shipments by ICOO were 4.911 mn tons in May and 33.781 cumulatively (Bull 2/6). There has been confusion between long and metric tons over the months, but the total checks closely as metric. It can be seen however to include the MPC shipments of 263 000 tons in March as well as compensation crude. At the end of April cumulative ICOO figures were given from 1/6/72 (in mn long tons) as shipments 28.135, border exports 29.722, production 33.320 (MEES 8/6).

Fao exports in May 1973 were stated as 413 223 tonnes (Bull 2/6), similar to the figures for the previous three months. Including the first week in June (113 300) cumulative shipments were given as 4256 thousand tonnes in 162 tankers (Baghdad Observer 8/6). There were reasons to suspect various errors in INOC's cumulative figures of tonnages and shipments during 1972, and the new figure of tankers confirms them. The cumulative tonnage should probably be reduced by about 407 thousand tonnes, giving 1904 in 1972 and 1945 for 1 January - 7 June 1973.

Economics
September, 1973

(55)

EXPORT CREDITS GUARANTEE DEPARTMENT

P.O. BOX NO. 272, ALDERMANBURY HOUSE, ALDERMANBURY, LONDON EC2P 2EL

Telex: 883601 Telephone: 01-606 6699

I E Rich Esq
HM Treasury
Great George Street
LONDON
SW1P 3AG

Your reference

Our reference FG 6/36481

Date 25 September 1973

RECEIVED IN
REGISTRY No. 47
26 SEP 1973
NKR12/1

EXPORT GUARANTEES COMMITTEE - CASE NO 1195
WILLBROS(OVERSEAS) LIMITED
HADITHA/RUMAILA PIPELINE - IRAQ

1 We have been approached for Financial Guarantee support by Willbros (Overseas) Limited for their share in a consortium bid to construct a crude oil pipeline system connecting the North Rumaila oil field in the southern part of Iraq to the existing K - 3 (Haditha) pumping station on the Kirkuk - Mediterranean pipeline system. The buyer would be the State Consulting Company for Oil Projects (SCOOP) for the Ministry of Oil and Minerals acting on behalf of the Government of Iraq.

2 The total estimated value of the project is £100m, and we understand there are at least three international consortia bidding on a turnkey basis as well as numerous individual bids for parts of the project. An example of the latter is a bid being made on a supplier credit basis by John Brown Engineering for 12 gas turbines with pumps value £9m for which our Specific Guarantees people have indicated cover on terms 5% with order, 10% on shipment, 85% by 10 half-yearly instalments over 5 years from installation.

3 Willbros are bidding together with Bechtel (USA) and Entrepose (France). On current estimates Willbros' share of the business will be about £14.5m with Bechtel and Entrepose sharing the £85m balance, we understand, more or less equally. Details of the Willbros' share are set out in the attached schedule.

4 Eximbank have informed us that for the American share of around £40m they have indicated support for 90% of the value of US goods and services repayable over 10 years from start-up.

5 The French credit insurers (Coface) indicated only cash terms initially because, we were told, their experience of covering Constructional Works projects in the Middle East had been poor. However, Entrepose recently told Willbros that Coface have now indicated to them support on 7 years credit from start up. We have sought confirmation of this from Coface and await their reply.

6 As Willbros' share of the business is comparatively small and because, apart from 6 gas turbines with pumps value £4.23m, their contract would be for a miscellany of equipment and for, as yet unspecified, services we do not consider there is any strong justification for supporting their proposed share value £14.5m on terms more favourable than 85% of the UK element repayable over 5 years from start-up. If we are pressed by Willbros to agree longer credit (and we almost certainly will be) we would be prepared to consider up to 7 years credit provided we obtain confirmation from Coface that they will concede 7 years for the French share.

I E Rich Esq   Ref FG 6/36481

7   Advice from Baghdad is that this pipeline is a prestige project which at the moment may not be economic but which the Iraquis are determined to have and can afford. Recent estimates of their oil reserves have increased substantially. We elaborated on the general economic position in Lambert's letter to you of 24 May.

8   Since the settlement of the IPC dispute earlier this year trading relations have shown some improvement and from the number of visits recently made to Iraq by the consortium members at the request of the Iraqi Government it seems they are favourably disposed to the Willbros/Bechtel/Entrepose technical proposals and the consortium is now being pressed by the Iraqis to put forward detailed financial proposals.

9   In view of the size of this business in relation to our current total commitments on Iraq of £6.1m it is thought not to be a suitable candidate for consideration under Section 1. We would propose, therefore, to take the business under Section 2.

10 We have no previous experience of negotiating buyer credit type guarantees in Iraq but the status of the buyer and borrower are such that we do not anticipate any underwriting problems.

11 The Committee's views are sought urgently on the proposed basis of support as set out in paragraphs 6 and 9.

Yours sincerely

D M Jaffray

cc	G M Lambert	B of E
	T J Wilshire	ODA
	M E Pellew	FCO
	C H Tarrant	FCO
	R J Saunders	MoD
	S N Chilton	DTI
	L C Watson	DTI
	Miss Stewart	DTI
	V I Chapman)	
	Mrs A Sherratt)	ECGD
	A J Saunders)	
	P Donovan	Baghdad

S C H E D U L E

Ref: FG 6/36481

1.	UK Contractor:	Willbros (Overseas) Limited - in consortium with Bechtel (USA) and Entrepose (France)	
2.	Buyer:	State Consulting Company for Oil Products (SCCOP) for Ministry of Oil and Minerals - Iraq	
3.	Borrower:	Government of Iraq (in a form to be agreed by ECGD)	
4.	State of Negotiations:	Tender submitted 4 August 1973. Discussions on technical specifications currently in progress between Consortium and SCCOP.	
5.	Project:	Strategic crude oil pipeline system between Haditha and Rumaila	
6.	Project Value:	Overall estimate £100 million including total local element	

7. Details of UK contractual responsibility:

		Value £
UK element		
Goods (inc 6 gas turbines with Pumps	£4.23m	11,000,000 (CIF)
Asphalt primer & enamel	£1.79m	
Communication system	£2.5m	
42" & 18" Scraper Traps	£118,000	
Line valves & misc valves	£680,000	
Services		3,500,000
		14,500,000
Local element		Not yet known

8. Terms of Payment to Contractor:

	From Loan	From buyer direct
UK element	85%	15%
Local element	Nil	100%

9. Terms of Repayment of Loan:

UK element — 10 or 14 equal half-yearly instalments the first payable at 30 months and the last at 84 or 108 months from date of contract

10. Maximum amount of loan:

UK element	£12,325,000
Amount to be guaranteed	£12,325,000 plus interest

11. Contractual Programme:

Estimated completion: 24 months from date of contract

12. Market conditions: Country grade 'C'

A. THE ARAB WORLD AND ISRAEL

Iraq's New Oil Policy

Iraqi News Agency 1215 gmt 24 Sept 73

Text of dispatch datelined Baghdad, 24th September:

The Ministry of Oil and Minerals is working on a new plan based on the refining of crude oil for export rather than confining exports to crude oil alone, it was learned here today. The plan will be implemented in two stages: the first stage will cover the expansion of refining operations inside Iraq; the second will cover the construction of new refineries of tremendous capacity in conjunction with some Arab and other countries according to their geographic locations and their proximity to markets.

An official source at the Ministry of Oil and Minerals has stated that expansion in the oil industry for export is one important point to which the Ministry attaches special attention. The Ministry is working on drawing up a permanent policy in this respect. The exporting of oil in the form of oil products will bring huge economic benefits because of the additional value of refined oil and the expansion of the oil industry inside Iraq; the benefits have hitherto been going abroad.

It is known that prices for oil products in the world markets are much higher than those for crude oil. Thus the export of refined products will bring huge financial and economic resources to the country and increase the volume of its foreign currency, thereby bolstering its balance of payments. Furthermore, the expansion of the refining industry will contribute effectively to the creation of opportunities for the use of Iraqi manpower and will help to expand the industrialization of the country. The development of the refining industry will help to provide money for profitable investments in numerous industries related to the oil industry such as the petrochemical industry.

The source pointed out that the plan will provide for increasing refining capacity for export purposes. It will be carried in stages, taking into consideration the problems of transport and marketing. As a first step towards the implementation of this plan, it has been decided to immediately double the refining capacity of the Basra oil refinery to 7,000,000 tons annually through the construction of an additional refining unit.

The source added that the expansion of the Basra refinery will cover the production of the most important oil products in demand by the world and on which the petrochemical industries rely, such as liquid gas, benzine, white oil, jet aircraft fuel, gas oil and bunkering fuel.

Speaking about the construction of new refineries, which is the second stage in the plan, the source explained that the Oil Ministry is preparing to draw up detailed studies on this. The source said the new refineries will have huge capacities, with the primary purpose being to export to the major consumer markets in the world such as Western Europe and Japan.

The source said: In accordance with the principle of expanding refining operations in Iraq for export purposes, the Ministry is currently considering the construction in southern Iraq of a new refinery with an annual capacity of 10,000,000 tons for export purposes. He said that agreement could be reached to commit the company implementing the project to market part of all of the refined products. The Ministry is also considering the construction of [other] Iraqi refineries or the construction of refineries in co-operation with some Arab countries, whether they are oil-producing countries or not.

The source added: As a first step on this road, an agreement could be reached with certain governments of the Arab countries bordering the Mediterranean to construct a joint refinery on the coast, with the advantage of being close to the major markets in the Mediterranean Basin such as Italy, Greece and the Adriatic area, and the East European countries, particularly Romania and Yugoslavia. The source continued: In view of the economic advantages of such a refinery, particularly from the transportation aspect, it will be possible to handle the marketing jointly between Iraq and the government of the Arab state in which the refinery is constructed, without the need to enlist the help of foreign companies, to meet the increasing demands for refined oil products in the West European markets.

The source said: Other formulas of co-operation on the question of refineries outside Iraq can be reached without necessarily constructing a new refinery but by participating in already built refineries. In this case, Iraq can supply such a refinery with crude oil and assume the responsibility for operation and administration from the technical aspect. An agreement could also be reached with several oil-producing countries which are members of OPEC, particularly the Arab member states, to construct joint refineries located half way between the areas of production and the consumer areas so as to utilize the advantages of transportation and those of mixing Iraqi oil with various qualities of crude oils to meet consumer needs and the pollution laws in certain areas. Examples of this are constructing a joint Iraqi-Algerian refinery to supply West European markets with a mixture of Iraqi oil and the oil available in those countries which has a low sulphur content or constructing an Iraqi-Indonesian refinery to supply oil to Japan.

Communique on Visit of UAA Head of State to Qatar

RY

Doha home service 1530 gmt 3 Sept 73

Excerpts from joint communique issued on 3rd September:

At the invitation of his brother, His Highness Shaykh Khalifah Bin Hamad Al Thani, the Amir of Qatar, His Highness Shaykh Zayid Bin Sultan Al Nuhayyan, Head of State of the United Arab Amirates, paid an official visit to Qatar during the period 1st to 3rd September 1973..., In an atmosphere of amity and fraternity, talks were held between the two Heads of State and their respective delegations dealing with relations between the two countries, current and future situations in the region and the Arab world, and current international issues...

Within the framework of bilateral relations, the two sides agreed on the necessity of finding suitable bases for economic, cultural and information co-operation between them. With regard to economic co-operation, the two sides are of the opinion that it is necessary to set up joint establishments among the countries of the Arabian Gulf in the fields of air and maritime navigation; and to develop petrochemical and other suitable industries.

When discussing the situation in the Arabian Gulf, the two sides stated their agreement on the necessity of establishing solidarity among the sister countries of the Arabian Gulf; and of strengthening and bolstering relations among themselves, in various fields, in order to guarantee their stability and security and to create a suitable atmosphere for the progress of their peoples - free from international disputes and foreign ambitions.

With regard to the Arab situation, views were identical, as both sides stated their total support for the struggle of the people of Palestine to regain their usurped homeland

[wi]ll exercise their right to self-determination... The two Heads of State and their delegations studied current international issues, and stated the importance of the non-aligned summit conference, which will be held soon in ... Algeria...

His Highness the esteemed guest extended an invitation to his brother, His Highness the Amir of Qatar to pay a visit to the United Arab Amirates. His Highness the Amir of Qatar accepted the invitation with thanks, and promises to pay the visit at the first possible opportunity...

Qatari View on the "Oil Weapon"

APH.

Cairo Voice of the Arabs 1745 gmt 24 Sept 73

Text of report of 'Al-Urubah' editorial, in press review:

'Al-Urubah' of Qatar deals with the dimensions of the battle with the Israeli enemy. Writing under the heading, "The energy war has begun", it said: The expectations of some financial and political leaders in the West regarding individual oil attitudes by Libya or Saudi Arabia have not been fulfilled; for all the oil-producing Arab states warned the USA and the western oil companies against taking measures against Libya's nationalization decision. This was indicated in the statement issued by the Ministerial Council of OAPEC, which was held in Kuwait.

Although the statement of the Arab organization was brief, it contained enough important signs which not only confirmed solidarity with Libya in her attitude towards the companies, but also stressed the legality of her nationalization decision. The Qatari magazine went on: No doubt Arab oil pressure is being paralleled by strong Zionist pressure on the American administration. Obviously it is this Zionist pressure which is the main reason for the attitude of the USA, which ignores even the real interests of the American people. Faced with a growing Arab pressure, the American Zionist organisation called on President Nixon to formulate emergency plans for the development of energy sources, in the event of the Arab states trying to exploit oil as a means of pressure to change American policy towards the Middle East.

The magazine 'Al-Urubah' concluded: All the Arab measures which have so far been taken have been legitimate ones, to gain benefits from their natural resources. They were primarily (?economic) measures. Therefore all the clamour raised about this issue, and the insinuation of the possibility of military intervention - and indirect threats to this effect - stem from the continued thinking in terms of the old colonial mentality by some leaders in the West; and from their belief that the sapping of the resources of peoples is the lawful right of the big powers. But standards today have changed and the Arabs who have come from the desert can go back to it.

In Brief: General

Health of Syrian pilot rescued by Israel The Syrian pilot who was shot down during the dogfight and rescued by an Israeli helicopter is now out of the hospital. Completely recovered, 2/Lt. Ahmad Khadr al-Hasan has been moved to a prison camp. Israel has informed the International Red Cross. (Israel in English for abroad 2000 gmt 24 Sept 73)

Israeli-Upper Volta co-operation On 24th September Israel and Upper Volta signed a protocol on technical co-operation. The protocol stipulates, among other items that Israel

will continue its development of a farm project in Upper Vôlta, increase its aid ... forestry, and assist in problems of irrigation and exploitation of water resources. The protocol was signed by the Foreign Minister, Abba Eban and the adviser to the Prime Minister of Upper Volta. (Israel home service 2100 gmt 24 Sept 73)

Egyptian teachers for North Yemen A special Saudi plane arrived at San'a airport on 24th September from Cairo and another in Hudaydah on 23rd September, bringing another group of Egyptian teachers to work in the Yemen Arab Republic; the teachers are paid for by Saudi Arabia. (San'a home service 1700 gmt 24 Sept 73)

£42m contract for Brown and Root

BROWN AND ROOT have been awarded a £42m. contract by the Iraq Government for the installation of two submarine pipelines and building of deep-water terminals in the Gulf, it was announced last night.

The contract was signed in Baghdad on Friday night.

The firm, whose centre for Gulf operations is Bahrain is to instal two 48-inch diameter pipelines from the southern Iraq coast to a distance of about 25 miles within Gulf waters.

They will be linked to four docks for loading tankers, an Iraq News Agency report said.

During the initial 19-month phase, the project will have a loading capacity of 50 million tons a year, which would rise to 80 million tons at the end of the project, with the possibility of a further increase to 120 tons.

In the meantime, a committee of Iraqi experts is holding talks with international firms on work connected with the land section of the project, and a contract is expected to be signed shortly.

Work connected with the land section includes the installation of pumps and crude oil tanks at the Rumeila and Fao oil-fields, as well as the installation of an oil and gas pipeline from the port of Fao to the deep-water terminal.

The announcement came too late for any comment by a Brown and Root spokesman in Bahrain.

Enter Oil in Iraq
28/9

With the compliments of

FINANCIAL RELATIONS DEPARTMENT

For comments, if any, please.

C. Tennant 27/9

FOREIGN AND COMMONWEALTH OFFICE
LONDON SW1A 2AH

I have told Mr Tennant that we support this project

[illegible] 27/9
[illegible]

59

MED

RECEIVED IN
REGISTRY No.35
- 4 OCT 1973
NBR 12/7

COPY

BANK OF ENGLAND

Copy to C.H.Tarrant, Esq.
F.C.O.

2nd October 1973.

[Dear Ian]

E.G.C. Case No.1195
Iraq: Haditha - Rumaila Pipeline

Please refer to Jaffray's letter of 25th September. We would be content with E.C.G.D. support for Willbros' share of this project on the terms proposed.

I am copying this to Jaffray and the other recipients of his letter (apart from Donovan).

[Yours sincerely]

(Signed) G. M. LAMBERT

I.E.Rich, Esq.,
HM Treasury,
Great George Street,
London,
SW1P 3AG

BPPN ZCZ
BBC B

B26: IRAQ ANNOUNCES PLANS TO EXPORT MORE REFINED OIL

Enter in
[illegible]
[illegible] 25/9

(IRAQI NEWS AGENCY INA) BAGHDAD: THE MINISTRY OF OIL AND MINERALS IS WORKING ON A NEW PLAN BASED ON THE REFINING OF CRUDE OIL FOR EXPORT RATHER THAN CONFINING EXPORTS TO CRDUE OIL ALONE, IT WAS LEARNED HERE TODAY.

THE PLAN WILL BE IMPLEMENTED IN TWO STAGES: THE FIRST STAGE WILL COVER THE EXPANSION OF REFINING OPERATIONS INSIDE IRAQ: THE SECOND WILL COVER THE CONSTRUCTION OF NEW REFINERIES OF TREMENDOUS CAPACITY IN CONJUNCTION WITH SOME ARAB AND OTHER COUNTRIES ACCORDING TO THEIR GEOGRAPHIC POSITIONS AND THEIR PROXIMITY TO MARKETS.

MF BBC MON 1710 24/9 AD

B28: IRAQ OIL: FINANCIAL BENEFITS

AN AUTHORISED SOURCE AT THE MINISTRY OF OIL AND MINERALS HAS STATED THAT EXPANSION IN THE OIL INDUSTRY FOR EXPORT IS ONE IMPORTANT POINT TO WHICH THE MINISTRY ATTACHES SPECIAL IMPOTANCE. THE MINISTRY IS WORKING ON DRAWING UP A LONG-TERM POLICY IN THIS RESPECT, THE EXPORT OF OIL IN THE FORM OF OIL PRODUCTS WILL BRING HUGE ECONOMIC BENEFITS BECAUSE OF THE ADDITIONAL VALUE OF REFINED OIL AND THE EXPANSION OF THE OIL INDUSTRY INSIDE IRAQ.

IT IS KNOWN THAT PRICES FOR OIL PRODUCTS IN THE WORLD MARKETS ARE MUCH HIGHER THAN THOSE OF CRUDE OIL. HENCE, THE EXPORT OF REFINED PRODUCTS WILL BRING HUGE FINANCIAL AND ECONOMIC RESOURCES TO THE COUNTRY AND INCREASE THE VOLUME OF ITS FOREIGN CURRENCY.

MF BBC MON 1714 24/9 AD

B28: IRAQ OIL -3- BASRA REFINERS CAPACITY TO BE DOUBLED

THE SOURCE POINTED OUT THAT THE PLAN WILL PROVIDE FOR INCREASING THE REFINING CAPACITY FOR EXPORT PURPOSES. IT WILL BE CARRIED OUT IN STAGES, TAKING INTO CONSIDERATION THE PROBLEMS OF TRANSPORT AND MARKETING.

AS A FIRST STEP TOWARDS THE IMPLEMENTATION OF THIS PLAN, IT HAS BEEN DECIDED IMMEDIATELY TO DOUBLE THE REFINING CAPACITY OF THE BASRA OIL REFINERY TO SEVEN MILLION TONS ANNUALLY THROUGH THE CONSTRUCTION OF AN ADDITIONAL REFINING UNIT.

THE SOURCE ADDED THAT THE EXPANSION OF THE BASRA REFINERY WILL COVER THE PRODUCTION OF THE MOST IMPORTANT OIL PRODUCTS IN WORLD WIDE DEMAND, SUCH AS LIQUID GAS, BENZINE, WHITE OIL, JET AIRCRAFT FUEL, GAS OIL AND BUNKERING FUEL.

MORE POSSIBLE BBC MON 1718 24/9 AD (KY)

MED

B28 IRAQ OIL 4: TO EXPORT TO WEST AND JAPAN

[illegible]EAKING ABOUT THE CONSTRUCTION OF NEW REFINERIES, WHICH IS [illegible] SECOND STAGE OF THE PLAN, THE SOURCE EXPLAINED THAT THE OIL MINISTRY IS PREPARING TO DRAW UP DETAILED STUDIES ON THIS.

THE SOURCE SAID THE NEW REFINERIES WILL HAVE HUGE CAPACITIES WITH THE PRIMARY PUR[illegible] OF EXPORTING [illegible] [illegible]JOR CONSUMER MARKETS IN THE WORLD, SUCH AS WESTE[illegible]N EUROPE AN[illegible]

MF BBC MON HTM

B28 IRAQ OIL 5: NEW REFINERY MAY BE BUILT IN SOUTH

THE SOURCE SAID: IN ACCORDANCE WITH THE PRINCIPLE OF EXPANDING REFINING OPERATIONS IN IRAQ FOR EXPORT PURPOSES, THE MINISTRY IS CURRENTLY CONSIDERING THE CONSTRUCTION IN SOUTHERN IRAQ OF A NEW REFINERY WITH AN ANNUAL CAPACITY OF 10-MILLION TONS FOR EXPORT PURPOSES. HE SAID THAT AGREEMENT COULD BE REACHED TO COMMIT THE COMPANY IMPLEMENTING THE PROJECT TO MARKET PART OR ALL OF THE REFINED PRODUCTS.

THE MINISTRY IS ALSO CONSIDERING THE CONSTRUCTION OF OTHER IRAQI REFINERIES, OR THE CONSTRUCTION OF REFINERIES IN COOPERATION WITH SOME ARAB COUNTRIES, WHETHER THEY ARE OIL-PRODUCING COUNTRIES OR NOT.

MF BBC MON HTM

B28 IRAQ OIL 6: N. AFRICA PLAN

THE SOURCE ADDED: AS A FIRST STEP, AN AGREEMENT CAN BE REACHED WITH CERTAIN GOVERNMENTS OF THE ARAB COUNTRIES BORDERING THE MEDITERRANEAN TO CONSTRUCT A JOINT REFINERY ON THE COAST, WITH THE ADVANTAGE OF BEING CLOSE TO THE MAJOR MARKETS IN THE MEDITERRANEAN BASIN SUCH AS ITALY, GREECE AND THE ADRIATIC AREA, AND THE EAST EUROPEAN COUNTRIES, PARTICULARLY ROMANIA AND YUGOSLAVIA.

THE SOURCE CONTINUED: IN VIEW OF THE ECONOMIC ADVANTAGES OF SUCH A REFINERY, PARTICULARLY FROM THE STANDPOINT OF TRANSPORTATION, IT IS POSSIBLE TO HANDLE THE MARKETING JOINTLY BETWEEN IRAQ AND THE GOVERNMENT OF THE ARAB STATE IN WHICH THE REFINERY IS CONSTRUCTED WITHOUT THE NEED TO ENLIST THE HELP OF FOREIGN COMPANIES TO MEET THE INCREASING DEMANDS FOR REFINED OIL PRODUCTS IN THE WEST EUROPEAN MARKETS.

MF BBC MON HTM

B28 IRAQI OIL 7: OTHER FORMULAS FOR COOPERATION

THE SOURCE SAID: OTHER FORMULAS FOR COOPERATION ON THE QUESTION OF REFINERIES OUTSIDE IRAQ CAN BE REACHED WITHOUT NECESSARILY CONSTRUCTING A NEW REFINERY BUT BY PARTICIPATING IN EXISTING REFINERIES. IN THIS CASE, IRAQ WOULD SUPPLY SUCH A REFINERY

B28 IRAQ OIL 5: NEW REFINERY MAY BE BUILT IN SOUTH

THE SOURCE SAID: IN ACCORDANCE WITH THE PRINCIPLE OF EXPANDING REFINING OPERATIONS IN IRAQ FOR EXPORT PURPOSES, THE MINISTRY IS CURRENTLY CONSIDERING THE CONSTRUCTION IN SOUTHERN IRAQ OF A NEW REFINERY WITH AN ANNUAL CAPACITY OF 10-MILLION TONS FOR EXPORT PURPOSES. HE SAID THAT AGREEMENT COULD BE REACHED TO COMMIT THE COMPANY IMPLEMENTING THE PROJECT TO MARKET PART OR ALL OF THE REFINED PRODUCTS.

THE MINISTRY IS ALSO CONSIDERING THE CONSTRUCTION OF OTHER IRAQI REFINERIES, OR THE CONSTRUCTION OF REFINERIES IN COOPERATION WITH SOME ARAB COUNTRIES, WHETHER THEY ARE OIL-PRODUCING COUNTRIES OR NOT.

MF BBC MON HTM

B28 IRAQ OIL 6: N. AFRICA PLAN

THE SOURCE ADDED: AS A FIRST STEP, AN AGREEMENT CAN BE REACHED WITH CERTAIN GOVERNMENTS OF THE ARAB COUNTRIES BORDERING THE MEDITERRANEAN TO CONSTRUCT A JOINT REFINERY ON THE COAST, WITH THE ADVANTAGE OF BEING CLOSE TO THE MAJOR MARKETS IN THE MEDITERRANEAN BASIN SUCH AS ITALY, GREECE AND THE ADRIATIC AREA, AND THE EAST EUROPEAN COUNTRIES, PARTICULARLY ROMANIA AND YUGOSLAVIA.

THE SOURCE CONTINUED: IN VIEW OF THE ECONOMIC ADVANTAGES OF SUCH A REFINERY, PARTICULARLY FROM THE STANDPOINT OF TRANSPORTATION, IT IS POSSIBLE TO HANDLE THE MARKETING JOINTLY BETWEEN IRAQ AND THE GOVERNMENT OF THE ARAB STATE IN WHICH THE REFINERY IS CONSTRUCTED WITHOUT THE NEED TO ENLIST THE HELP OF FOREIGN COMPANIES TO MEET THE INCREASING DEMANDS FOR REFINED OIL PRODUCTS IN THE WEST EUROPEAN MARKETS.

MF BBC MON HTM

B28 IRAQI OIL 7: OTHER FORMULAS FOR COOPERATION

THE SOURCE SAID: OTHER FORMULAS FOR COOPERATION ON THE QUESTION OF REFINERIES OUTSIDE IRAQ CAN BE REACHED WITHOUT NECESSARILY CONSTRUCTING A NEW REFINERY BUT BY PARTICIPATING IN EXISTING REFINERIES. IN THIS CASE, IRAQ WOULD SUPPLY SUCH A REFINERY WITH CRUDE OIL AND ASSUME TECHNICAL RESPONSIBILITY FOR OPERATION AND ADMINISTRATION.

AN AGREEMENT COULD ALSO BE REACHED WITH SEVERAL OIL-PRODUCING COUNTRIES WHICH ARE MEMBERS OF OPEC, PARTICULARLY THE ARAB MEMBER STATES, TO CONSTRUCT JOINT REFINERIES LOCATED HALFWAY BETWEEN PRODUCTION AND CONSUMER AREAS TO UTILISE THE TRANSPORT ADVANTAGES ON THE ONE HAND AND THE ADVANTAGES OF MINING IRAQI OIL WITH VARIOUS QUALITIES OF CRUDE OIL TO MEET CONSUMER NEEDS AND THE POLLUTION LAWS IN CERTAIN AREAS, ON THE OTHER.

AN EXAMPLE OF THIS WOULD BE THE CONSTRUCTION OF A JOINT IRAQI-ALGERIAN REFINERY TO SUPPLY WEST EUROPEAN MARKETS WITH A MIXTURE OF IRAQI OIL AND THE OIL AVAILABLE IN THESE COUNTRIES WHICH HAS A LOW SULPHUR CONTENT OR THE CONSTRUCTION OF AN IRAQI-INDONESIAN REFINERY TO SUPPLY OIL TO JAPAN.

END BBC MON 1833 24/9 HTM (OIL)

MED

Earl GB 11/10

A. THE ARAB WORLD AND ISRAEL

Iraq's New Oil Policy

Iraqi News Agency 1215 gmt 24 Sept 73

Text of dispatch datelined Baghdad, 24th September:

The Ministry of Oil and Minerals is working on a new plan based on the refining of crude oil for export rather than confining exports to crude oil alone, it was learned here today. The plan will be implemented in two stages: the first stage will cover the expansion of refining operations inside Iraq; the second will cover the construction of new refineries of tremendous capacity in conjunction with some Arab and other countries according to their geographic locations and their proximity to markets.

An official source at the Ministry of Oil and Minerals has stated that expansion in the oil industry for export is one important point to which the Ministry attaches special attention. The Ministry is working on drawing up a permanent policy in this respect. The exporting of oil in the form of oil products will bring huge economic benefits because of the additional value of refined oil and the expansion of the oil industry inside Iraq; the benefits have hitherto been going abroad.

It is known that prices for oil products in the world markets are much higher than those for crude oil. Thus the export of refined products will bring huge financial and economic resources to the country and increase the volume of its foreign currency, thereby bolstering its balance of payments. Furthermore, the expansion of the refining industry will contribute effectively to the creation of opportunities for the use of Iraqi manpower and will help to expand the industrialization of the country. The development of the refining industry will help to provide money for profitable investments in numerous industries related to the oil industry such as the petrochemical industry.

The source pointed out that the plan will provide for increasing refining capacity for export purposes. It will be carried in stages, taking into consideration the problems of transport and marketing. As a first step towards the implementation of this plan, it has been decided to immediately double the refining capacity of the Basra oil refinery to 7,000,000 tons annually through the construction of an additional refining unit.

The source added that the expansion of the Basra refinery will cover the production of the most important oil products in demand by the world and on which the petrochemical industries rely, such as liquid gas, benzine, white oil, jet aircraft fuel, gas oil and bunkering fuel.

Speaking about the construction of new refineries, which is the second stage in the plan, the source explained that the Oil Ministry is preparing to draw up detailed studies on this. The source said the new refineries will have huge capacities, with the primary purpose being to export to the major consumer markets in the world such as Western Europe and Japan.

The source said: In accordance with the principle of expanding refining operations in Iraq for export purposes, the Ministry is currently considering the construction in southern Iraq of a new refinery with an annual capacity of 10,000,000 tons for export purposes. He said that agreement could be reached to commit the company implementing the project to market part of all of the refined products. The Ministry is also considering the construction of [other] Iraqi refineries or the construction of refineries in co-operation with some Arab countries, whether they are oil-producing countries or not.

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TO IMMEDIATE FCO TEL NO 367 OF 07 OCTOBER 1973, INFO PRIORITY CAIRO, TEL AVIV, BEIRUT, KUWAIT, TEHERAN, WASHINGTON, UK MIS NEW YORK, PARIS AND THE HAGUE.

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OIL NATIONALISATION IN IRAQ.

BAGHDAD RADIO ANNOUNCED AT 10.25 AM 7 OCTOBER THE NATIONALISATION OF THE AMERICAN SHARE OF THE BASRAH PETROLEUM COMPANY BPC. 23 3/4% (TWENTYTHREE AND THREE QUARTERS PERCENT) OF THE EQUITY JOINTLY OWNED BY STANDARD OIL AND MOBIL IS TO BE TRANSFERRED TO THE IRAQ NATIONAL OIL COMPANY. COMPENSATION WILL BE GIVEN PROVIDED THE NATIONALISATION IS NOT OBSTRUCTED BY OTHER SHAREHOLDING COMPANIES.

2. THE NATIONALISATION HAS BEEN ENACTED BECAUSE OF CONTINUOUS U.S. SUPPORT FOR ISRAEL.

3. THE RCC HAVE ALSO DECIDED TO STOP OIL EXPORTS TO U.S.A. AND ANY OTHER STATE SUPPORTING ISRAEL.

MCCLUNEY [REPEATED AS REQUESTED]

DEPARTMENTAL DISTRIBUTION:		ADDITIONAL DISTRIBUTION:
MED	NEWS D	OIL
STD	WED	
EN D	GIPD	
NENAD	RES D	
N AM D	MOD(INTERNAL)	

MBR 12/7

SAUDI ARABIA

5. Aramco Starts Up New Field and Announces New Offshore Find: The Arabian American Oil Company (Aramco), has put its onshore Harmaliyah field into production at a rate of 100,000 b/d and announced the discovery of a major new offshore field at Maharah, between the Marjan and Zuluf fields. In its announcement, Aramco for the first time published its probable - as opposed to proved - reserves, which it estimates at 156 billion barrels. The following is the text of the Aramco press release:

"Production in another Aramco field, Harmaliyah, started during the first week of August. On Sunday, 5 August, just nineteen months after oil was first found there, Harmaliyah was producing Arabian Light crude at the rate of about 100,000 b/d. While Harmaliyah was starting up, Aramco drilling activity in the Arabian Gulf discovered a major new offshore field between the Marjan and Zuluf fields. Maharah well 1, the discovery well, has confirmed significant accumulations in the Khafji and Manifa reservoirs. The well is now below 12,400 feet as drilling continues. Once it reaches total depth further testing will be carried out. Harmaliyah well 1 discovered oil by drill stem test in the Arab D reservoir in December 1971. After site preparation, construction of a gas-oil separator plant (Gosp) for Harmaliyah with a design capacity of 150,000 b/d began last 1 March. By September sufficient wells will have been drilled to operate the Gosp at full capacity. Information gained from these and other wells drilled to delineate Harmaliyah has pushed Aramco's probable reserves in known fields, excluding Maharah, up to an estimated 156 billion barrels. Aramco's proved reserves, which are included in these probable reserves, are currently about 93 billion barrels. Harmaliyah is situated about 18 miles east of Ghawar field between Hawiyah and Haradh, and 50 southeast of Udhailiyah. New processing and shipping installations at Harmaliyah include the 150,000 b/d two-stage electrified Harmaliyah Gosp 1, motor driven shipping facilities, a flowline and trunkline system consisting of approximately 12 miles of 10/14-inch pipe, and a 20/22-inch tieline 36 miles long from Harmaliyah Gosp 1 to the new 46/48-inch 28-mile pipeline running from Uthmaniyah in the direction of Abqaiq. Power for Harmaliyah field is coming over a 30-mile, 115-KV powerline extension from a new switch station at Hawiyah adjacent to the Haradh powerline."

6. Akins Nominated for Saudi Ambassadorship: President Nixon has nominated Mr. James Akins, the Director of Fuels and Energy at the Department of State, as US Ambassador to Saudi Arabia. Mr. Akins, who is the Senior State Department energy specialist, has previously served in posts in Baghdad, Damascus and Kuwait.

IRAQ

7. Iraq-Turkey Conclude Crude Oil Pipeline Agreement: Iraq and Turkey concluded an agreement in Ankara on 27 August providing for the construction of a crude oil pipeline linking Iraq's northern oilfields at Kirkuk to the Mediterranean port of Dortyol in southern Turkey.

The agreement was signed by Mr. Murtada Sa'id 'Abd al-Baqi, the Iraqi Minister for Foreign Affairs and member of the Revolutionary Command Council, and Mr. Haluk Bayulken, the Turkish Foreign Minister.

The 40-inch 1,126-km. pipeline, of which 475 kms. will lie in Iraq and 651 kms. in Turkey, is scheduled for completion in 1976 and will have a capacity of 25 million tons/year during the period 1977-79, rising to 30 million tons/year between 1980-82 and finally to

35 million tons/year in 1983. Turkey will purchase some 10 million tons of Iraqi crude via the pipeline to meet its local requirements. The total cost of the project is estimated at about $350-$400 million and each of the two countries will cover the construction cost of the section of the line within its territory.

Under the terms of the 20-year agreement, which is automatically renewable for further five-year periods unless either party indicates otherwise one year prior to its expiry date, Iraq will pay Turkey a flat transit fee amounting to 35 US cents/barrel. The agreement also stipulates that both sides will initiate talks within a period of six months from the date of the agreement for the purpose of concluding a protocol covering the technical and implementation aspects of the project.

Meanwhile, a report in The Financial Times of 29 August states that 12 international construction firms and another 15 pipe manufacturers have already expressed their interest in undertaking the construction work and supplying the necessary pipe. Among the construction companies mentioned are Costain, John Brown Construction and Taylor Woodrow of Britain, Siampre of Italy, Entrepose and Spie Batignolles of France, Mannesmann of Germany and Bechtel of the US. The other pipe manufacturers include British Steel of the UK, Nippon Steel, Nippon Kawasaki and Mitsubishi of Japan, Mannesmann of Germany, Montubi and Dalmine of Italy, Vallourec of France and Armco, US Steel and Bethlehem Steel of the US.

International bids will be invited for the construction of the project, whose specifications have been prepared by Italy's Snam Progetti.

8. Second Stage of Mishraq Sulfur Project Completed: The Iraq National Minerals Company (INMC) announced on 22 August that the second stage of the Mishraq sulfur project has been put into operation, raising the annual capacity of the plant to 1 million tons/year. The cost of the second stage, which took 17 months to complete, amounted to ID 6 million ($20.2 million), thus bringing the total cost of the project to ID 16 million ($54 million). The first stage was put into operation in January 1972 with an output of 250,000 tons/year.

In its announcement, INMC said that since its operation, the Mishraq plant has produced a total of 380,000 tons of sulfur, of which 60,000 tons were utilized locally and 320,000 tons prepared for export. Exports from Umm Qasr in the Gulf have so far amounted to 120,000 tons. INMC has concluded sulfur supply contracts with India, China, Pakistan and North Korea, and will soon begin shipments to Lebanon and Australia.

9. INOC to Sell Two Million Tons of Royalty Crude in 1974: MEES learns that the Iraq National Oil Company (INOC) plans to market two million tons of royalty crude from the Basrah Petroleum Company (BPC) during 1974, and will invite bids for these quantities from interested buyers in October of this year. The asking price for the crude, as reported in last week's MEES, will be the posted price plus 15 percent.

EGYPT

10. Egypt Finalizes Oil Agreements with Petrobras and Trans-World Oil: Egypt has finalized two oil exploration and development agreements, one with Brazil's state-owned Petrobras and the other with the US firm Trans-World Oil. The two agreements which were initialed last May (MEES, 26 May) were approved by the Egyptian People's Assembly in June.

IRAQ

5. INOC Concludes Service Contract with Indian Oil and Natural Gas Commission: At MEES press time news reports from Baghdad stated that the Iraq National Oil Company (INOC) on 22 August concluded a service contract deal with India's state-owned Oil and Natural Gas Commission. The contract was signed by the Iraqi Minister of Oil and Minerals and INOC's Chairman of the Board, Dr. Sa'dun Hamadi, and the Chairman of the Indian Oil and Natural Gas Commission.

Although no details of the terms of the contract are yet available, it is understood that the Oil and Natural Gas Commission will carry out oil exploration and development operations in Area No. 1 in south Iraq, which was opened for bidding by INOC in February 1972 (for INOC's notice inviting bids and map, see MEES, 3 March 1972). The tract in question is some 4,175 sq. kms. in area and lies east of Long. 46° and south of Lat. 30° to the west of Kuwait.

6. Full Details on the Mitsubishi-Iraq LPG Deal: MEES has been informed by the Mitsubishi Corporation's Representative in Beirut that a number of errors were reported in Item 8 of MEES 3 August concerning the Mitsubishi-Iraq LPG deal which was taken from a Japanese press report. There follows the correct information as communicated to MEES:

Mitsubishi Corporation of Tokyo signed a contract on 14 March 1973 with the Iraq National Oil Company (INOC) for the purchase of 1.2 million tons/year of LPG over a period of 15 years beginning in 1976, subject to the completion of the LPG production plant in Iraq on schedule. The engineering designs for the project are being undertaken by the Chemico Corporation of the US, and upon their completion international tenders will be invited for the construction of the plant.

The marketing of the LPG in Japan will be undertaken by Mitsubishi Corporation itself, and its subsidiary the Mitsubishi LPG Company will purchase the larger part of the LPG imported from Iraq. The Mitsubishi LPG Company includes as shareholders the Mitsubishi Oil Company, the Mitsubishi Petrochemical Company and the Mitsubishi Corporation. Mitsubishi Chemical Company has no share in the LPG subsidiary.

Furthermore, Mitsubishi Corporation has no plans to enter into a joint-venture deal with Idemitsu Kosan for the import of the Iraqi LPG. Idemitsu Kosan will purchase part of the imported LPG from Mitsubishi as an ordinary customer.

Mitsubishi Corporation has also placed an order with Mitsubishi Heavy Industries Ltd. for the construction of three 43,000 d.w.t. LPG tankers to be used in the transportation of the LPG to Japan.

7. Iraq Ratifies Economic and Technical Cooperation Agreement with India: The Iraqi Revolutionary Command Council (RCC) has promulgated Law No. 85 of 1973, published in the 16 August issue of the Official Gazette, ratifying the economic and technical cooperation agreement concluded with India on 6 April.

The agreement was one of five economic, technical and scientific agreements signed in New Delhi last April during the visit to India of Dr. Sa'dun Hamadi, the Iraqi Minister of Oil and Minerals (MEES, 13 April).

8. Iraq and Turkey May Finalize Agreement on Projected Crude Oil Pipeline: According to press reports from Ankara on 15 August, Iraq and Turkey may finalize the agreement for the construction of a crude oil pipeline linking Iraq's northern oilfields to the port of Dortyol in southern Turkey during the forthcoming visit to Turkey of Iraq's Foreign Minister, Mr. Murtada Sa'id 'Abd al-Baqi,beginning on 25 August.

The last round of talks between the two sides on the project ended on 16 August after a week's visit by a Turkish oil delegation to Baghdad (MEES, 17 August). The projected 1,126 km.-pipeline will have an initial annual capacity of 25 million tons (500,000 b/d) rising to about 30 million tons (600,000 b/d) after three years.

9. Iraq and Czechoslovakia Draw Up Terms of New Trade Agreement: On 20 August, a Czechoslovakian economic delegation headed by the Minister of Foreign Trade ended a six-day visit to Iraq during which it held talks with Iraqi officials on economic, political and industrial relations between the two countries. According to an Iraqi News Agency report the two sides initialed a draft trade agreement which will be finalized before the end of this year.

The draft agreement provides for the development of trade exchanges between the two countries and for the promotion of Iraqi exports to Czechoslovakia. It also calls for the setting up of a joint committee which will meet annually to draw up a trade exchange plan and discuss ways and means of strengthening relations between the two countries.

In addition to the draft agreement, the two sides also drew up a timetable for the start up of the 70,000 b/d Basrah refinery, which is being built by the Czechoslovakian firm Technoexport at a cost of ID 24 million and is scheduled for completion by the end of this year. The agreement for the construction of the refinery was signed in December 1969 (MEES, 2 January 1970).

IRAQ-KUWAIT

10. Baghdad Talks Fail to Settle Iraq-Kuwait Border Dispute: The visit this week of a top-level Kuwaiti delegation to Iraq, headed by Prime Minister Jabir al-Ahmad, has apparently failed to produce the final settlement of the long-standing border dispute between the two countries which has been generally expected in recent weeks. Iraq's position as enunciated last March, following an armed border clash in which both sides sustained casualties, was that it would not agree to the demarcation of its southern boundaries with Kuwait until the latter agrees to cede to it the two Kuwaiti islands of Bubiyan and Warbah (MEES, 30 March and 6 April). However, it is thought that the differences between the viewpoints of the two parties have narrowed considerably since then and, according to the joint communiqué issued at the end of the Baghdad talks, "the two sides have agreed to continue top-level meetings and contacts with a view to reaching a final formula for the delineation of the borders."

The following is a resumé of the joint communiqué:

"In a fraternal and frank atmosphere the question of the delineation of the borders between the two countries was discussed in the light of the two states' national interests and regional responsibilities. The two sides exchanged their points of view in this regard and agreed to continue high-level meetings and contacts with a view to reaching a final formula for the delineation of the borders.

necessary to ensure that both private and public refineries avoided losses.

India recently approved its second product price increase in less than three months (PIW—Aug.27,p.6). Imported crude prices have increased 11 times since 1970, according to the minister.

•

IRAQ—A Japanese group has reached agreement in principle for long-term supplies of North Rumaila crude oil from Iraq similar to Japan Lines' deal with Abu Dhabi (PIW—Jan.1, p.1). According to a spokesman in Tokyo, Iraq would supply 100-million tons of crude over 10 years starting in 1976 (about 200,000 barrels daily), plus 30-million tons of liquefied petroleum gas over 15 years. In return, Iraq would receive an "untied" loan for $500-million, made available through Japan's Export-Import Bank.

Still to be ironed out are terms of repayment on the loan. The Japanese firms are C. Itoh, Toyo Menka, Kyushu Oil and Pacific Consultants.

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JAPAN—Exxon is renewing its agreement with long-time customer Idemitsu to supply about 150,000 barrels daily of crude during 1974-75, with possible extension for eight years thereafter. Though quantities have been set, crude types and prices are still to be agreed. Exxon has supplied Idemitsu in the past primarily with Arabian light, some Kuwait crude, Abu Dhabi Murban and small quantities of Indonesian Minas crude.

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KUWAIT—Talks so far on revision of the participation agreement with BP-Gulf's Kuwait Oil Co. have been "encouraging," the Oil & Finance Minister said, and they will be resumed after the mid-month OPEC meeting in Vienna. He declined to say whether the latest talks were based on immediate 51% participation instead of the original initial 25% (PIW—Aug.6,p.3).

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KUWAIT—The government has budgeted for a 4.79% rise in its oil revenues in the 1973-74 fiscal year to KD 530.9-million (about $1,810.4-million at the new parity of $3.41 to 1 KD), from KD 506.6-million in 1972-73. It forecasts oil company income taxes will rise to $1,372.9-million and oil royalties to $437.5-million. Oil revenues would cover 93.4% of the new budget of $1,937.2-million.

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NORWAY—A new offshore gas discovery near the French-Norwegian Frigg field has been announced by France's Elf. It's on block 25/2, 11 miles east of the Frigg discovery well on block 25/1. A first test confirmed the existence of gas, Elf said, though no results were given. However the pay zone had not been completely drilled through at the time of the announcement.

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NORWAY—Disagreement has developed over whether the government should take part of the North Sea Frigg field gas contracted for sale to British Gas Corp. (PIW—July 30,p.7). The Ministry of Industries says it's studying use of some Frigg gas to make petrochemicals or electric power in Norway. Parliament is to receive these studies before acting on ratification of the agreement.

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PERU—An incentive to develop more production is built into the new prices offshore producer Belco Petroleum will receive for its share of the oil under its new production-sharing terms (PIW—Aug.20,p.10). Under an agreement to sell all of its 50% share to state-owned Petroperu for the rest of this year and 1974, Belco will get $2.28 a barrel for up to 34,000 barrels daily. This starting price will rise to $2.60 or more depending on the output level, which is currently around 34,500 b/d. Under its former concession terms, Belco was paid $2.15.

•

PERU—The state oil agency expects to complete negotiations to buy out Burmah Oil's Lobitos oil properties by the end of the month. The deal was suggested by Lobitos which has been having financial difficulties. It would include transfer to Petroperu of Lobitos' 50% interest in minor production in northern Peru.

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UNITED KINGDOM—In its first overseas exploration venture, Iran's state oil company in partnership with British Petroleum has struck "high pressure" natural gas with its initial North Sea wildcat. The find has been capped, and won't be re-entered until next summer, using specialized equipment to handle the high pressure.

The well is in block 3/29, about 20 miles northwest of the British-Norwegian Frigg gas field. BP cautioned that it may be an isolated pocket of gas.

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UNITED STATES—Particularly citing "sharply increasing costs" for foreign crude oil and products, Exxon raised product prices nation-wide Sept. 6. It boosted gasoline 1¢ a gallon, heating oil and kerosine 0.85¢, propane 3¢, and lubricants, greases and other specialty products 1¢ to 5¢. It said the increases conform with government price-control rules (PIW—Aug.27,p.10).

Exxon also raised heavy fuel oil prices 11¢ to 35¢ a barrel Sept 6, to reflect Sept. 1 increases in Venezuelan tax export values (see story p. 3). New cargo prices on No. 6 fuel oils are $5.56 for 0.3% sulfur, $4.77 for 1% and $3.40 for 2.9%.

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UNITED STATES—Crude oil and natural gas aren't the only foreign mineral resources for which the U.S. is becoming a major competing buyer on world markets. By the end of this century, the U.S. may need to import $100-billion worth of mined minerals annually, a government official predicts.

"We will be competing for those foreign mineral products with other mineral-hungry nations all over the world," says the Bureau of Mines director. "The situation could lead to a global minerals shortage that would make our current energy crisis look like the good old days by comparison."

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VENEZUELA—The outgoing government failed to win congressional funding of liquefied natural gas export plans. General elections come up Dec. 9, and Congress adjourned until March without acting on a request for a 2.25-billion bolivar (about $525.7-million) credit for the LNG project (PIW—Aug.6p.10). Congress also took no action on the administration's proposed tax relief for producers of marginal oil fields (PIW—May 7,p.5).

In New Posts . . .

Gulf Oil Corp. has named C. C. McKee general manager of liquid nattural gas; Samuel Regier assistant general manager, LNG; and James R. Kaiser LNG projects coordinator.

J. W. Erickson, former managing director of **Esso Petroleos Espanoles**, is president of **Incon S.A.**, Madrid, a new firm associated with **Dycon Petroleum**, London.

production) and 650,000 b/d (6.5 percent of production) respectively for those years. Since roughly 192,000 b/d for each of the two years has already been sold under the first series of contracts last May, the quantities remaining for sale would run at some 233,000 b/d for 1974 and 458,000 b/d for 1975.

IRAQ

4. ICOO to Carry Out 200,000 b/d Expansion Program in North Iraq: On 29 June, a contract was signed between the Iraqi Company for Oil Operations (ICOO), which is operating the nationalized Kirkuk field, and the French firm Compagnie des Compteurs, under the terms of which the latter will supply ICOO with the necessary large-diameter pipe for carrying out the projected expansion in exports of Kirkuk crude across Syria to Mediterranean terminals. The President of ICOO, Mr. 'Abd al-Fattah Yasin, told the Iraqi News Agency that the projected expansion will enable ICOO to increase exports from the current rate of 1,200,000 b/d to 1,400,000 b/d or an increase of some 10 million tons annually. He added that expansion operations will be carried out in both Iraq and Syria.

In Iraq, new wells will be drilled and existing gas/oil separation plants will be expanded. The wells will be connected to the gas/oil separation plants and to stabilization units. A new stabilization unit with a capacity of 240,000 b/d will be built and three new turbine pumping units will be erected along the route from the Afana area in North Kirkuk to the stabilization units. New lines will be laid linking the stabilization units to the tanks at K1 to convey the additional throughput to the main pump station.

The water injection program will be expanded to increase injection into the main Kirkuk reservoir. The capacity of the 30-32 inch pipeline in both Iraq and Syria will be expanded to accommodate the projected increase in exports, and nine large turbine pumping units will be installed inside Iraqi territory, two at the K1 Station at Kirkuk, four at the K2 Station West, and three at the T1 Station. Two turbine generators will also be installed at the K2 West Station.

Four turbine pumping units will be installed in Syrian territory, one at T2 Station, another at T4 Station and two at T3 Station. Furthermore, the existing natural gas supply network will be modified to ensure the operation of the new pumping units.

ICOO will be responsible for carrying out a major part of the expansion program inside Iraq, including the drilling of wells, linking them with the new gas/oil separation plants and installing the new turbine at Afana. ICOO will also lay the lines linking the pump station with the new stabilization unit, as well as those linking the stabilization unit with the K1 pump station. ICOO will also assume responsibility for expanding the water injection program and operating all the necessary ancillary services such as transport, housing, import and transport of equipment and installation of all the turbine units in Iraq. Furthermore, ICOO will carry out the modifications to the existing natural gas supply network to ensure the operation of the new turbine units in both Iraq and Syria.

5. Iraq to Supply Poland with Crude until 1980: As a result of the state visit to Poland of Iraqi President Ahmad Hasan al-Bakr from 27 to 30 June, agreement was reached on the expansion of economic and commercial cooperation between the two countries, which, among other things, provides for the supply on a long-term basis of Iraqi crude to Poland in repayment for

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30 AUG 1973

NENA

B27 IRAQ AND INDIA SIGN OIL PROSPECTING AGREEMENT NBR 12/7

(IRAQI NEWS AGENCY - INA) BAGHDAD: A SERVICES AGREEMENT WAS SIGNED HERE LAST NIGHT BETWEEN THE IRAQI NATIONAL OIL COMPANY (INOC) AND THE INDIAN PETROLEUM AND NATURAL GAS AUTHORITY. CHAIRMAN DR. SADUN HAMMADI SIGNED FOR INOC AND CHAIRMAN (? B.S. VISSI) FOR THE INDIAN AUTHORITY.

UNDER THE AGREEMENT, THE INDIAN AUTHORITY WILL EXPLOIT AREA NO. I IN SOUTHERN IRAQ, WHICH INOC HAD PROPOSED TO EXPLOIT.

END BBC MON 23/8 LSE 1347 (KY) (OIL)

NNNN

B2 AL-BAKR 9: OIL AND FINANCIAL WEAPONS MUST BE USED

NSR 12/7

+WE FIRMLY BELIEVE THAT THERE IS NO WAY OUT OF THE CURRENT CONDITIONS OF WEAKNESS AND THERE IS NO WAY TO CONFRONT THE ENEMY EFFECTIVELY OTHER THAN THROUGH ESTABLISHING TRUE COMBAT UNITY AMONG THE ARAB COUNTRIES WHICH ASSUME THE TASK OF BEING VANGUARDS IN THE BATTLE OF LIBERATION AND ON WHICH THIS TASK IS IMPOSED BY DUTY AND ACTUAL CONDITIONS.

IF CONFRONTATION IS TO BE STRONG AND EFFECTIVE, THE ARAB OIL AND BANK DEPOSITS MUST BE USED AS AN EFFECTIVE WEAPON IN THE BATTLE IN ACCORDANCE WITH THE PLAN WE HAVE SUBMITTED TO THE MEETINGS OF THE ARAB DEFENCE COUNCIL EARLY THIS YEAR.

+THE ARAB OIL AND THE ARAB BANK DEPOSITS, WHICH EXCEED BILLIONS OF DOLLARS DEPOSITED IN THE BANKS OF THE IMPERIALIST COUNTRIES, MUST BE USED TO SERVE THE BATTLE OF LIBERATION AND NOT THE INTERESTS OF IMPERIALISM OR THE SELFISH INTERESTS OF CERTAIN QUARTERS AND PERSONS.

MF BBC MON 0109 17/7 G.T.

MSR 12/7

B2 AL-BAKR 8: IRAQ'S +CLEAR-CUT PLAN FOR STRUGGLE+

+UNDER THESE CONDITIONS, AMERICAN IMPERIALISM AND ITS ALLIES IN THE WORLD AND IN THE AREA MANAGED TO IMPLEMENT A VERY BIG PART OF THEIR PLAN TO DOMINATE ARAB OIL AND PLACE IT IN THE SERVICE OF THE OBJECTIVES OF IMPERIALISM, MONOPOLIES, AND AGGRESSION AT A TIME WHEN THE ENERGY CRISIS IN THE IMPERIALIST WORLD IS INTENSIFYING AND AT A TIME WHEN THIS MATTER IS BECOMING, NOW MORE THAN AT ANY TIME IN THE PAST, A WEAPON WHICH THE OPPRESSED PEOPLES COULD USE TO FORCE IMPERIALISM AND ITS ALLIES TO STOP THEIR AGGRESSIONS.

+...THE 17TH JULY REVOLUTION HAS A CLEAR AND FRANK OPINION IN REGARD TO THE CONDITIONS IN THE AREA... DURING OUR DIRECT MEETINGS WITH OUT BROTHERS, AS WELL AS AT THE OFFICIAL ARAB MEETINGS AND BEFORE THE ARAB MASSES, WE HAVE PRESENTED A CLEAR-CUT PLAN FOR STRUGGLE. WE ARE PREPARED TO DISCUSS THIS PLAN WITH OUR BROTHERS NOW OR IN THE FUTURE WITH A SPIRIT OF FRATERNITY, OBJECTIVITY, AND SINCERE DESIRE TO REACH PRACTICAL RESULTS.

MF BBC MON 0107 17/7 G.T.

Reference (58) NBR 12/7

Mr. C. G. Burton (MED).

ECGD cover for Haditha/Rumaila Pipeline.

Please refer to ECGD letter of 25 September to Rich in the Treasury.

2. Your verbal comments supporting this project & ECGD cover for it were passed to the Treasury.

3. However they have now asked if in view of the war situation they could have written comments.

4. I will be grateful if you will let me have a draft letter to send / to

May I have PPS plse

16/10

Now overtaken. Contract has been awarded to the Italian with Japanese/French supplying the pipe.

25/X

pa

to the Treasury with your up to date comments on this project.

(Sd) Tarrant 1/10

FRJ.

71.

Royal Swedish Embassy
British Interests Section
Baghdad

RECEIVED IN
REGISTRY No. 35
24 OCT 1973
NBR 12/7

G S Burton Esq.,
Middle East Department,
Foreign & Commonwealth Office,
London.

Your reference

Our reference

Date 13th October, 1973

30/x
NBR pa

Dear Graham,

IRAQI OIL FOR USA

Despite Iraqs call to stop the shipment of oil to the United States, the loading of a tanker designated for a states-side refinery continued at Khar-amaya with the agreement of the Ministry of Oil. Thus we had briefly the rather ridiculous situation where NEDC tankers loading for friendly countries e.g. Brazil, were not permitted to sail until the cargo was clearly the property of INOC, while on the other hand tankers owned by other shareholders could sail to any destination including USA.

2. I believe BPC have infact avoided despatching tankers to USA since the Iraqi statement, and the destination of the vessel above was changed. However the instructions issued to BPC for operation after the partial nationalisation did not include a bar on shipments of oil to the USA.

3. This is of course private information available only to the company and it would be inappropriate to disclose it without their agreement.

Yours ever

Ian.

I. McCluney

20/10/73

4

ID. 44.5M. Rumaila-Haditha Pipeline Contract signed

A contract was signed yesterday afternoon at the headquarters of the Iraqi National Oil Company for the construction of the strategic pipeline from Rumaila to Haditha. The 44.5 million dinars contract was signed between the Iraqi National Oil Company and the Italian group of companies Sanam Prochiti-Siebem-Montube.

On the Iraqi side the contract was signed by Dr. Sadoun Hammadi, Minister of Oil and Minerals and Chairman of the Management Board of INOC and on behalf of the Italian companies group by Mr. Jeloti Director General of Siebem Company and the authorised representative of the remaining companies.

The 22.5 month contract provides for all constructional works as well as the supply of all requirements of the project except the main pipes for the transport of crude oil and gas for the supply of which a contract was concluded last Thursday with the Japanese and French group of companies at a total value of 27 million dinars. The overall cost of the complete project will therefore be about 72 million dinars.

The strategic pipeline is connected from the Rumaila with the deep sea port. The contracts for their execution were already awarded. In Haditha area it will be connected with the crude oil pipeline from Kirkuk to the Mediterranean coasts. The new pipeline will be capable of pumping in two directions; towards the north to the Mediterranean ports and the second towards the south to the Iraqi export ports on the Arab Gulf. Pumping will be conducted according to requirements.

The contracts were awarded after an extensive study conducted by specialised and full-time committees which were formed for this purpose. The committees studied and analysed tenders for the supply and construction submitted by a number of international companies. Awards were made after the committees were fully satisfied of the best tenders as far as technical, contractual, financial and completion obligations were concerned.

The State Company for Consultancy and Planning of Oil Projects will supervise the execution of the project.

The signing ceremony was attended by the Chairman of the State Company of Consultancy and Planning of Oil Projects and the Deputy Chairman of INOC for Technical Affairs as weel as members of the Iraqi and Italian negotiating delegations.

GD 21/10/73

Please copy under comps,
ref our EXCED 36 of 21/10/73
to:- I.C. SCOTT ESQ. ECGD.
S.W. GARDINER ESQ., CRE DEPT, DTI.
G. BORTON ESQ., MIDDLE EAST DEPT, F.C.O.
C.R. PENNINGTON ESQ, OVERSEAS PROJECTS GROUP, DTI.
? GIBBON ESQ, EAST MIDLANDS REGIONAL OFFICE, DTI, NOTTINGHAM

It will be interesting to compare this with IPC's views to Baghdad today.

CONFIDENTIAL

[initials] 2/xi

Mr Young
Mr Bouttoff 31/x
Mr ~~Hamer~~ [initials] 2/xi
Mr ~~Wright~~ pa

Para 3 – bears out (Mr Wright's minute of 30/x on Shell/ECGD) the impression that the consortium scheme is not progressing fast.
PKW. 30/x

(73)

M(E)
Mr Renwick

OIL – IRAQ

In the corridors at OECD on 26 October I was able to speak to M de Montagu of CFP. He made the following points:

1) Banias had been bombed again at the beginning of last week. It would take longer than hitherto predicted to repair damage there. In the meantime CFP (more or less alone) were continuing to load at Tripoli;

2) the Iraqis had given the US companies the chance to buy back the production of their expropriated share of the BPC. The latter did not see how they could accept without jeopardising their legal position and were unlikely to take the offer up. For the moment INOC were shipping most of the oil concerned to Brazil;

3) he had participated in the talks with the Iraqis on a possible exploration consortium in new areas. He could not make up his mind whether they were serious or not. At times their conditions were so ludicrous that he could only conclude they were not;

4) he thought that the time for further discussions with OPEC on the price settlement mechanism might not come for some months. There were two critical issues. How would the market price be determined? Here too he thought that it might be in the OPEC interest to allow some time to elapse, during which freight rates would fall and product prices rise, so that they would have the makings of a case for a further hike. The second was that the companies would want to get away from the 140% principle. It was too early to say that very clear ideas had developed on possible alternatives. He himself was wondering whether the principle of tax at 85% of the market price might be mutually satisfactory;

5) returning to Iraq, he thought that the Iraqis, who now had a majority in BPC, might well seek to dissolve it in its present form and to re-constitute it as an Iraqi registered company with the remaining majors (CFP, BP and part of Shell) compensated on the basis of privileged

Not true. According to my calculations they hold 38% ie 23.75% (formerly EXXON) + 14.25% (formerly Dutch Shell) [initials] 31/x

/long-term

CONFIDENTIAL

long-term contracts like those which CFP had been able to negotiate in Kirkuk.

(R J. Alston)

29 October 1973

cc B Smith Esq
Middle East Department
FCO

R N Dales Esq
Energy Department
FCO

A R M Watts Esq
Oil Policy Division
DTI
Thames House South

Reference

Mr. McCluney

Al Thawra of to-day carries an editorial under the heading "After the failure of the Kuwait Conference and its feeble decisions".

The writer says that the Conference held in Kuwait last Wednesday to study the manner of the use of oil as a weapon in the battle resulted in feeble results as compared with the ability of the Arab nation to use oil as a weapon in the battle.

The writer says that the 5% decision taken by the Conference does not express the actual ability of the Arab nation to use the oil as a weapon in the battle from the economic, political and psychological aspects.

The writer calls for the nationalisation of American interests and adds that the least acceptable solution would be to prohibit the exportation of oil to U.S.A. and to threaten any other State which should adopt an attitude similar to that of U.S.A. that the same action would be taken against it.

The writer says that the reactionary Arab circles connected with U.S.A. attempted at the Conference to include Western Europe in the decision of the reduction of production. He says that would only have served the U.S.A. and Israel. He says that the Arabs should continue to supply oil to Japan and Western Europe, so that no crises should take place there. He says that this would encourage Western Europe to develop their present attitude in a direction serving the Arabs more and decrease their subserviency to U.S.A. and the influence of Zionism thereon. To include Europe in the decision of the 5% deduction would place Western Europe in the ranks of the enemy, and this is what America and Israel desire.

The writer says that Kuwait is in a position to take an attitude similar to that Abu Dhabi and Libya, and even to nationalise American interests. He asks what are the Arab oil producing countries waiting for after the battle with the enemy has entered its third week.

2. Under the heading "Radio London, or Radio Israel" a writer by the name of Agab Salim al Tahir criticises the B.B.C. for announcing the claims of Israel which are contradicted by B.B.C. day after day.

The writer says that the B.B.C. said on 10/10/73 that the Israelis claim to be at a distance of 22 km. from Damascus; on 11/10 at a distance of 30 km; on 12/10 at a distance of 34 km; on 13/10 at a distance of 38 km; and on 14/10 at a distance of 40 km.

The writer maintains that the continued broadcasting of the Israeli contradictory claims meant bias towards Israel.

J.J.Jacob. 21/10

Reference

RECEIVED IN
REGISTRY No. 35
1 - NOV 1973
NBR 12/7

94

Mr Burton (MED)
c.c. Mr Lockton (Energy Dept)
Mr Bretherton, Oil Division, DTI
Thames House South

IRAQI OIL

1. IPC today gave me their appreciation of the situation at East Mediterranean ports handling Iraqi oil.

2. 500,000 barrels per day are passing through Tripoli all of which is being exported. The refinery is working to full capacity and there are no production problems at present.

3. The extent of the damage to the refinery at Banias is not yet fully known but it is certain that it will be several months before it can handle any oil. A lot depends on what equipment has been destroyed and how quickly it can be replaced. The most optimistic estimate is a through-put of about 300,000 barrels per day in three months' time. Before the war the refinery was handling about 700,000 barrels per day.

4. IPC have not yet been instructed by the Iraqi Government to reduce production (over and above the reductions already made necessary by the damage at Banias), nor have IPC been told to stop supplies to the US and Holland.

R.J.S. Muir

R J S Muir
Near East & North
Africa Department

24 October, 1973

NB 14/11 pa

DD 145177 219242 500M 4/73 GM 3643/2

is at the base of the enmity between Saudi Arabia and South Yemen's marxist government; it is reflected in the deep distrust of the Iraqi government, in the king's pressure on Egypt to break its Russian connection, and in the reconciliation between himself and the Sultan of Oman, who is fighting the marxist-inspired insurgents in Dhofar. Saudi Arabia never accepted the United Nations resolution 242 on the Arab-Israeli dispute, since the king believed it was a matter for the combatants, and particularly the Palestinians, to decide for themselves on a solution. It is the future of the Holy Places in Jerusalem which are his first concern. He insists they must be returned completely into moslem hands.

There are times when King Faisal's wisdom appears to falter when his pride is involved. His refusal to recognise the United Arab Emirates, because of his claim to the Buraimi oasis and to a large and oil-rich chunk of what was Abu-Dhabi, is a factor which is having an unsettling effect on the new country. Although his relations with Iran have improved, his pride is nettled when the Shah claims the right to deal with any manifestation of revolutionary activity anywhere in the Gulf. He has now embarked on a rapid and vast arms expansion programme, which would seem to have the purpose of rivalling the Shah's prowess rather than of defending Saudi Arabia against any outside attack.

If Riyadh succeeds in its plans to develop Saudi Arabia into a nation which uses its own natural resources to develop its own heavy and light industries, to train its people in the necessary skills and instil in them the conviction that they must do the work themselves rather than pay others to do it for them, it will be a considerable achievement and will give to the Saudis an even louder voice in Arab affairs than their surplus wealth has bought them today. But it will be a tight-rope walk to proceed with economic development at a pace to satisfy the rising expectations of the people, and at the same time to prevent the infection of western ideas and different ethical and moral values which would undermine the traditional and Islamic nature of Saudi society. ■

Iraq: Rising Expectations

NBR 12/7.

by Robert Graham

Diplomatic Correspondent of *The Financial Times*, London.

Even in the height of summer when the hot winds whip off the topsoil, creating small spirals of dust on the flat countryside round Baghdad, the land manages to avoid a feeling of total aridity. Thanks to the presence of the Tigris and the Euphrates there is greenery and water runs, albeit sluggishly, in the irrigation channels. Further north the land is still more fertile. Iraq is more fortunate than most Arab countries: not only does it have a reasonable agricultural base and a small population of just over 11 m., but it also has oil in large quantities and of high quality.

Despite its natural endowments the economic performance in the fifteen years since the Baathist Government first came to power has been indifferent. Yet now, for the first time, there are indications that this situation is changing. Bolstered by dramatically increasing oil revenues and a Baathist leadership now committed to more pragmatic policies, the country is embarking upon a major development programme. Iraq is also the one Arab country, apart from Saudi Arabia, which has the potential to raise its oil production substantially.

Before looking into the future it is essential to make one or two observations on past performance and attempt to understand why the country's potential has not so far been realised. In the first place the exploitation of oil, the backbone of the economy, has been the subject of bitter and acrimonious dispute between the Government and the foreign-owned operator, the Iraq Petroleum Company. This dispute has been going on since the Kassem Government published the famous Law 80 in 1961 which expropriated 99 per cent of the company's unexploited acreage, including the rich North Rumaila field in southern Iraq. This left the IPC with their main operation around Kirkuk in the north and two smaller fields in Mosul and near Basra at South Rumaila. The net result of the dispute was a general reluctance by the IPC (whose shareholders include BP and Shell) to invest. More importantly, since IPC revenues accounted for 90 per cent of total revenues, the Government's income depended heavily upon the amount of oil produced by the company. At times the Iraqis found themselves helpless when IPC dropped production as the international market dictated, or when tanker freight rates rose prohibitively high in the Mediterranean, as was the case just before nationalisation in June 1972.

Thus while oil provided a steady income and largely accounted for an annual 10 per cent growth rate, it was nevertheless insufficient for a large scale development programme. However, it is arguable whether, even if oil income had been higher, the results would have been much different. Political uncertainties, which have overshadowed life in Iraq throughout Baathist rule, made decision-making difficult. Divergent ideologies among the leadership led to a sort of 'immobilisme' on the economic front, with priority given to the resolution of political rivalries. On the technical and administrative level, the repressive nature of the Government forced many of the country's most talented technicians and administrators to leave – if they had not already been put into prison. Added to this, the Government found its hands tied by the Kurdish rebellion, which

absorbed both a good deal of energy and even more of the state's funds.

In this sort of climate the Baathist leadership introduced a rigid form of socialism. The state took over all forms of economic enterprise and set about agricultural reform by nationalising land holdings and establishing cooperatives. The technical help sought was from the socialist countries of Eastern Europe. It is therefore not surprising that well under 50 percent of budget allocations were ever utilised. Indeed but for the oil, the growth rate would have been minimal. As it is, per capita income moved from ID 88 in 1967 to ID 124 (ID 1 = £1.25) by 1972, while over the same period national income rose from ID 757 m to ID 1250 m.

Why then should things now look more auspicious? The two most important factors are the agreement reached with the IPC in February this year and the new political climate which has emerged in the wake of the abortive coup of June 30. The agreement with IPC, which took eight months to reach, has had a tremendous cathartic effect. At a stroke it removed all the political differences that had existed as far back as 1961. Under the agreement, the IPC agreed to pay £141m compensation and to renounce all outstanding claims in return for 15m tons of crude and an undertaking by Iraq to waive all its past claims. The company also agreed to raise the production of its subsidiary, Basrah Petroleum Company operating South Rumaila, from 32m tons a year to 80m tons by 1976.

The agreement also meant that the Iraq National Oil Company (INOC) was now able to exploit the expropriated North Rumaila field – which it began to do with Soviet assistance in 1969 – free from any fear of legal action. Secondly it meant that crude oil from the nationalised Kirkuk fields in the north, producing 57m tons a year, could be sold on the open market. Accordingly all crude oil barter deals with East European countries were halted immediately after signature of the agreement. The net result of all this is that oil production, which is currently running at around 95m tons a year, will be doubled in three years. This year oil revenues will be ID 450m, next year ID 650m and in 1975 ID 750 million. Thereafter there will be a quantum jump. In terms of known recoverable reserves, Iraq lies fourth behind Saudi Arabia, Kuwait and Iran, but those concerned with the oil industry believe that Iraq is second only to Saudi Arabia in potential reserves, and they consider that by 1980 the country's income will not be far distant from that of Iran.

President al-Bakr

In order to implement this programme, it is intended to expand existing pipeline capacity from Kirkuk through Syria to the Mediterranean terminals, which will raise Kirkuk production to nearly 70m tons in 1976. North Rumaila will see its production expanded from 5m tons to 40m tons. Parallel with this it is proposed to build a strategic two-way pipeline between Basrah and Haditha on the Syrian border, which will enable production to be switched from the Mediterranean to the Gulf or vice versa as the market demands. It will also lessen dependence on Syrian transit, which in the past has been fraught with disputes. This project could cost as much as £300m; meanwhile a smaller pipeline project, initially carrying 25m tons, is being studied from Kirkuk to the Turkish Mediterranean. INOC is also in the advanced stages of planning a deepwater terminal in the Gulf costing £40m.

Problems do remain to be resolved between the former shareholders of IPC and the Government. However, it has been made clear recently by Siddam Hussein, the strong man in the Baath Party and officially Vice-President, that these are technical. In particular the Government has to resolve the question of a "participation" agreement with Basrah Petroleum Company. But the impression from a recent visit to Baghdad is that the Iraqi leadership is in no particular hurry, preferring to watch how Kuwait resolves the participation issue there before moving themselves. Further it seems that the main concern at present is to create a strong viable national oil concern, on similar lines to Algeria's Sonatrach, which is greatly admired.

However, the changes taking place in the oil sector are only one aspect of a general change which has been in evidence since the abortive coup of June 30. Without going into details of what happened, the most important element to appreciate is that there has been a drastic pruning of the top Baathist leadership, with those remaining adopting a more moderate posture. Both those on the right as well as the left have either been eliminated or put in prison, while the military have been further emasculated in favour of the so-called "civilian" wing of the Baath. Of special significance has been the disappearance from the political scene of Abdul Khalek Sammarai, the leading left-wing ideologue and formerly number three in the power structure. Sammarai had favoured a more rigid form of socialism, with close identification with the socialist countries of Eastern Europe, particularly the Soviet Union. It was for instance Sammarai who was believed to have blocked a possible agreement with the IPC last December. It was also he and his friends who argued that Iraq should not resort to the purchase of American Boeings (they are now buying three 707s and two 737s).

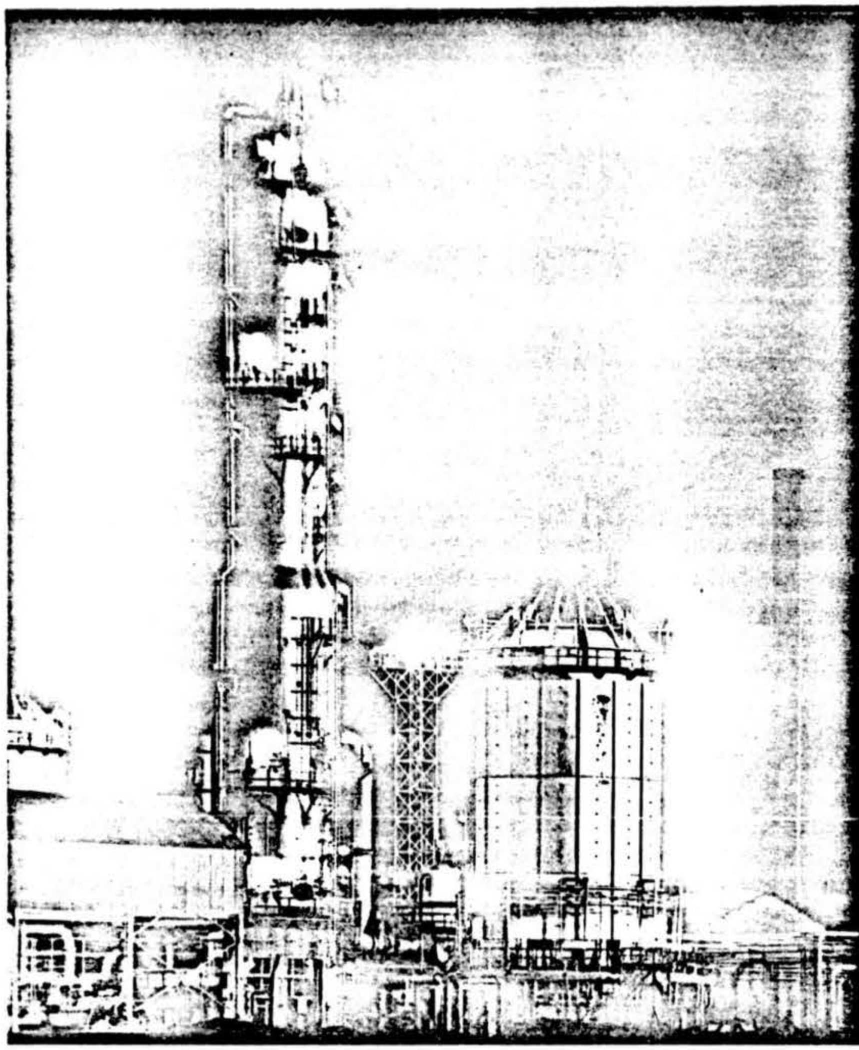
Analogies are never entirely exact. Nevertheless there is a similarity between the abortive coup in Iraq in June and the abortive coup of Colonel Zbiri in Algeria in 1967. Until the Zbiri attempt in Algeria, President Boumedienne's Government had been hamstrung by the presence of men with differing political ideologies and many major decisions had been held up. The

attempt gave Boumedienne the opportunity to form a more homogeneous team and opened the way for major decisions to be made. The same can be said of Iraq now. And like Algeria, the model for development would seem to be a sort of state capitalism based upon a foreign policy of non-alignment, with a willingness to take technical assistance and accept contracts from the best sources. At the same time private enterprise will be allowed a small say.

Already there is evidence to support the contention that Iraq is moving towards a position of non-alignment as regards economic development. Despite a basic distrust of the West and its imperialism in the Middle East, the Iraqis have begun to look away from their East European partners as much as anything because Eastern Europe does not have the goods. Western oil experts are now being sought along with American rigs in preference to the Soviet ones. All the big contracts in the oil sector look like going to Western companies, while in the petrochemical field, a big area of future expansion, the Iraqis have had a bad experience with the Czechs, who are behind in their construction of a refinery at Basrah. Elsewhere France's Saviem has built a truck assembly plant and Pirelli are going to construct a tyre factory.

Although it is easy enough to be optimistic over Iraq having the necessary funds for development, it is far more difficult to predict at this stage how it will be carried out. Only ID 640m was spent in the plan period of 1965-69 – under half of the planned allocations. In the present plan period which ends in 1974 it is hoped that ID 1560m will be spent, or over 60 percent. The weak point remains economic management, and it will be possible to conceal a sluggish growth rate simply by the huge increases in the oil sector. Nevertheless in mitigation it has to be said that the country now has funds which it has never had before, which alone provides a better psychological climate.

It would also seem that many of the pressures evident in a developing country, such as unemployment and absence of qualified personnel, are less acute in Iraq than elsewhere. According to Government statistics the working population is 2.8m, and will rise to 3.2m within the next five years. While Baghdad does act as a magnet for people from rural areas there are other regional centres which act as a stabilising force. The rural population still predominates and it is too early to judge whether the authorities, in their plans now being drawn up for 1975-79, will emphasise industrialisation at the expense of agriculture. This latter sector remains weak and disorganised and suffers from dislocations due to attempts to impose a cooperative system in the wake of land nationalisation.



Oil processing plant at Kirkuk

But if such pressures are less acute, others peculiar to Iraq exist. The question of autonomy for the Kurds, who represent over 20 percent of the population and control the slice of country above Mosul, is a particularly thorny one. The Government has recently emphasised its pledge to grant autonomy by March 1974 and considerable efforts are being made to effect a genuine reconciliation by peaceful means – as opposed to the previous policy of expensive and ineffectual repression. But so long as this issue remains unresolved, then Government attention will be diverted and development will be held up.

Yet in spite of this, and after talking with a number of officials and private persons in Baghdad, the overriding impression is that people believe the country has an unprecedented opportunity to move forward which must be seized. Perhaps the best guage of confidence in the country's future will come from the many talented Iraqis working or studying abroad (there are 4,000 students in the UK). Efforts are now being made by the authorities to encourage them to return. So far few have responded. But at least the authorities have made the first step, which in itself is a change from the past. ■

In Brief: General

Enter Iraqi Oil
[illegible]
NBR 12/7.

New Iraqi prices for oil from Mediterranean terminals (Text) The Oil and Minerals Ministry has decided to set the posted price of Kirkuk oil, gravity 36 degrees, exported from East Mediterranean terminals at 7,213 dollars per barrel. The Ministry has advised the quarters concerned of the new posted prices, which became effective on 16th October. Ministry sources said the decision on the new price was taken after contacts between the Ministry and the Arab states exporting oil from Mediterranean terminals with the aim of co-ordination among them. The decision is in line with the decision of the ministerial committee of the Arab Gulf states which are members of OPEC. This decision calls for raising the posted prices in the Gulf area by 70 [as heard] per cent as from 16th October. (Baghdad home service 1900 gmt 24 Oct 73)

Libyan decision on BP compensation (Text) Tripoli: The committee formed in accordance with the Oil Minister's decision to assess the compensation to be paid to the nationalized British Petroleum in accordance with Law No 115 of 1971, has decided to pay this company the sum of 28,550,728 Libyan dinars. Taxes and other sums due from this company are still to be deducted from this sum. (Arab Revolution News Agency 1555 gmt 24 Oct 73)

Bill to postpone Israeli elections (Excerpts) The Knesset approved today [24th October] in a preliminary debate the draft Bill to postpone, because of the war, the elections for the Knesset and the local authorities from Tuesday next week to 11th December. . . It is possible that the elections may not be held on the new date - 11th December - because opinions were expressed that among those who should be elibible to vote are the soldiers who took part in the fighting but who are not included in the electoral list because of their age. . . (Israel home service 1000 gmt 24 Oct 73). (Excerpts) A Bill will be proposed in the Knesset tomorrow [25th October] providing for the postponement from 30th October to 31st December of the elections to the Knesset and to the local authorities. . . (Israel home service 1600 gmt 24 Oct 73).

... interest of its people to take a different line. (Kuwait home service 1000 gmt 24 Oct 73)

Moroccan comment on UN resolution (Excerpts from commentary)... The resolution adopted yesterday [sic] by the Security Council can undoubtedly be a positive factor and effective means to reach a real permanent peace, provided it is subjet to disinterested implementation .. and provided that Israel does not again resort to tendentious interpretations ... in order to shed its responsibility and change the real import of the resolution. When Resolution 242 was to be implemented .. the Israelis claimed that it stipulated evacuation from "occupied lands" and not "the occupied lands". One of the advantages of yesterday's resolution is that it puts an end to such arguments and disputes; as the Security Council unanimously affirmed that withdrawal involved all occupied lands .. (Moroccan press agency in Arabic 1000 gmt 24 Oct 73)

Fida'i comment on W German aid for Israel (Excerpts) The USA is not the only state that supports the Zionist enemy politically, economically and militarily .. an official spokesman for the PLO said .. In addition to the financial assistance to the Zionist enemy, the Government of West Germany is allowing the US Government to transport US arms and equipment from West Germany to occupied Palestine even after the declaration of the ceasefire. "This confirms the naked hostile stand by the West German Government towards the Arab people. Therefore the PLO calls on the Arab oil producing countries to suspend the export of their oil which constitutes more than 60 per cent of West Germany's imports until West Germany adopts a neutral stand or the shipment of US arms from West Germany ceases and the Bonn government's financial assistance to the Zionist enemy is suspended .. " ("Voice of Palestine", Algiers, 1830 gmt 24 Oct 73)

Reports of fida'i operations (Abstract of statements by Palestine military spokesman) (i) At 1300 on 23rd October our ground defences forced an enemy helicopter which was proceeding to the highest peak of Mount Hermon to change course. At 1330 the same day they prevented another helicopter landing on the same peak. Our artillery is still

Middle East Economic Survey

A weekly review of news and views on Middle East Oil

Supplement to

VOL. XVI NO. 52 19 OCTOBER 1973

NBR 12/7-

NEW LIGHT ON IRAQI OIL POLICY

by Ian Seymour

(With its massive expansion program now really gaining momentum, Iraq is a country in a hurry as far as oil development is concerned. This accelerated development has brought with it a tough but thoroughly pragmatic and businesslike attitude towards oil matters - contracts for projects, exploration and development ventures, etc. MEES News Editor Ian Seymour recently visited Baghdad where he interviewed a number of leading Iraqi oil officials, and here he records his impressions of the general trend of the country's oil policy in various fields. However, it should be noted that the interviews took place before the renewed outbreak of the Arab-Israeli war.)

Oil and Economic Development

One of the key points in Iraq's oil strategy is that the production and export of oil should be linked to the process of economic development in general, and industrialization in particular, in the producing countries themselves. It is proposed that in future every oil or gas deal with a foreign firm - be it an exploration/development venture or even a straight long-term purchase contract - should be accompanied by a counterpart element providing for assistance by the foreign firm concerned in some economic development project in Iraq. Such projects could be in the oil sector, i.e. further processing and industrialization of oil and/or gas, or in any other sector.

One top Iraqi official explained this viewpoint as follows: "To the more developed countries of the world, oil is becoming more and more vital as demand grows and supply prospects become tighter. For us oil producers, basically one-resource countries, this situation provides a unique opportunity to employ our oil resources as a means for achieving rapid and balanced economic growth in all sectors. We must stop looking at oil as a normal commodity to be bought and sold like cotton or rice. We need to use and now have the possibility to use this commodity as a tool for economic development. You might even say that oil is our lifeline to economic development.

"Of course it is not just a question of financing these projects; with our potential resources this should not prove too much of a problem. The big problem - and this is where foreign assistance can really be of help - lies in obtaining the requisite technological know-how and, in the case of export-oriented projects, markets as well. Another vital factor in the economic development process is stability, without which proper planning cannot take place. So, within this framework, a long-term stable relationship can be built up between producing and industrialized consuming countries, with the former supplying the latter with oil and the

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latter providing the former with technology and markets."

In this connection, it will be recalled that in a recent article based upon his comments (as head of the Iraqi delegation) during the XXXII OPEC Conference last March,* the Iraqi Minister of Oil and Minerals, Dr. Sadoon Hammadi, argued that the current energy shortage could be used by the OPEC member countries to achieve accelerated and sustained development of the producing nations in exchange for the long-run security of oil supplies vital to the consumers. Given the present structure of the oil industry, Dr. Hammadi saw three areas in which the producers could implement such a plan:

- Where the relationship between the government and companies is concessionary, a long-range program of the same duration as the concession could be drawn up containing obligations and undertakings relating to oil industry projects both within and outside the country and to other non-oil development projects. In the case of export-oriented projects, the arrangement should involve not only implementation of the project but guaranteeing markets for it as well.

- In the case of new areas being put up for oil development in various forms, a similar package deal could be proposed under which the companies would be committed to implement development projects while developing the new areas.

- Where the national oil companies market oil themselves, crude oil could be sold in long-term package deals including the implementation of development projects by the buyer at terms to be agreed upon.

Such arrangements, Dr. Hammadi concluded in his article, would provide the stability and security of oil supplies which the consuming countries are seeking by linking the export of oil not to the cash stream from oil revenues alone but to the development of the producing countries as well.

The idea of linking oil availability with the economic development of the OPEC countries was taken up in a big way by the XXXIV OPEC Conference in June which adopted a significant resolution on the subject in the form of a policy statement (for text see MEES, 3 August).

Oil Prices and Inflation

As far as oil prices are concerned, the Iraqis have taken a good hard look at worldwide inflationary trends. The big question here is: should the producing countries moderate their oil price demands with a view to exerting a restraining influence on the inflationary spiral, or should they concentrate their energies on ensuring that increases in oil prices keep ahead of inflation? On the whole, there is no doubt that the Iraqis have opted for the latter course.

They feel that it would be worthwhile exercising restraint on the price front only if it were possible by means of such an effort (a) actually to do something practical about checking world inflation, and (b) to ensure that the producing countries did not lose by their moderation on prices - that is to say that their loss as a result of foregone income from higher prices would be compensated for by a corresponding dampening down of increases in the prices of the manufactured goods they need to import. However, since this is a remote possibility, it is regarded

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* The text of the article was published in MEES, 18 May 1973.

as more realistic to concentrate on ensuring that oil prices rise to keep pace with the inflation in the prices of industrial goods, which is going to happen anyway whatever the oil producers do.

As one official put it: "We didn't cause the inflation, and we are not going to be able to avoid its effects. It would be nice if we could really do something about inflation in the industrialized world, but we can't; our economies could not exert much influence one way or the other. So the only realistic thing to do is ignore inflation in the West, play the rules of the market as best we can, and get the maximum feasible price for our oil." (This policy may be seen to have taken practical effect in the 16 October decision of the Gulf member states of OPEC to raise posted prices by 70 percent.)

Supply of Oil to the West

In principle, Iraqi officials stress that Iraq has no a priori objective to restrict or interrupt oil supplies to the West. On the contrary, progress in the West is considered as being good for the whole world, and Iraq certainly has no intention of creating any difficulties as regards oil supplies.

However, as regards the problem of Israel and protecting the Arab world from aggression, the use of oil as a political instrument is legitimate. Here, economics and politics go hand in hand. The two are inextricably interrelated and no country on earth can keep them separate.

So when faced with US support for Israel, it is only reasonable and realistic to expect the Arab producing countries to use their oil power to bring about a change. No country in a similar position could afford to neglect this golden opportunity of bringing pressure to bear - particularly now that the oil weapon is so much more of a practical possibility given that the financial surpluses of some producers place them in a position to regulate supply without damage to themselves.

Development of the National Oil Sector

Iraq is proud of its record in developing the national oil sector over the past four years. In fact, the Iraq National Oil Company (INOC) is currently engaged in a massive program of oil exploration and development of fields and production and export facilities which is designed to add some 2.5 million b/d to the country's oil export capacity by 1976, over and above the present level of around 2.0 million b/d. Together with BPC's current expansion program from 700,000 b/d in 1973 to 1.6 million b/d in 1976, this will give Iraq an export capacity of well over 5 million b/d by 1976.

Alsoon hand are ambitious plans for gas development, export refinery, petrochemicals and tankers.

To promote the oil development program and get on with the job as quietly as possible, INOC has adopted what is described as a policy of "pure competition" with regard to the award of contracts for projects. In other words, contractors are chosen purely on the basis of the terms they offer - prices, technology, delivery dates, etc. - without any political bias or discrimination on grounds of nationality. (The latter point is perhaps borne out by the award of major contracts for the Basrah deepsea terminal project to Brown and Root of the US and Mannesman of West Germany.)

One objective of this policy is a wide diversification of nationalities among the various contractors. "We think all nationalities should be able to work here without discrimination," one official said to me.

For Iraq, the most important thing is to speed up the exploration for and development of its oil reserves. To this end, within the framework of national policy, it is ready to consider any new ideas or new-forms of relationship with foreign firms in order to gain time and expertise.

Attitude Towards the Majors

Two basic considerations govern Iraqi policy towards foreign oil companies in general and the major international companies in particular. One is that control over the oil industry is an absolute right of the state; and the other is that the concessionary form of relationship is obsolete.

However, within this framework, the Iraqis would have no objection in practical terms to the majors making a "reasonable" profit in Iraq under arrangements satisfactory to the government.

Barter and Balanced Trading in Oil

Under the impact of the change-over to a seller's market in the oil industry, Iraq has abandoned strict barter trading in oil in favor of a cash-on-the-nail policy as far as possible.

However, a good deal of its national oil is moving under "balanced trade" arrangements where an effort is made to equalize the value of the oil and goods traded between Iraq and the foreign country concerned, and both the oil and the goods are priced according to market prices from time to time. However, Iraq is apparently now considering a new approach whereby balanced trade with any particular country would not be sought for itself alone. In other words, the development of trade would still be encouraged but not necessarily in balance between exported oil and imported goods.

Iraq and OPEC

As regards OPEC, Iraqi policy is and always has been to get the maximum from the oil companies, but to do it via the collective medium of OPEC. In other words, priority is given to maintaining the unity and cohesion of OPEC above other considerations.

However, the Iraqis do feel that in the past OPEC has tended to fall victim to the myth of the power of the oil companies, in consequence lapsing into a "timid pragmatism" which failed to achieve optimum results in negotiations. For its part, Iraq advocates a "firm pragmatism" which consists of knowing what one wants and setting a reasonable target, but then standing firm and refusing to bargain or compromise.

The Iraqis feel that they have had some success in convincing the other members of OPEC that the Iraqi approach pays off. Iraq, for example, played a major role in bringing about the second Geneva currency agreement and the decision to revise the Teheran price agreement. In the former case, it was Iraq that brought up the problem of the inadequacy of the first Geneva formula at the OPEC "energy crisis" conference in Vienna last March, and the Iraqi-Kuwaiti formula eventually adopted was very close to what Iraq had originally proposed. Again, it was Iraq that in August, initiated the consultations between the Gulf states which culminated in the decision to seek revision of the Teheran agreement.

(75)

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Mr G. S. Burton,
Middle East Dept.,
Foreign and Commonwealth Office,
London SW1.

Your reference

Our reference NBR 12/7.

Date 4th December 73

I enclose a copy of the final version of the brief on the Oil and Natural Gas Industry in Iraq, with many thanks for your helpful comments. Another copy is enclosed for the British Embassy in Iraq.

Susan Kirkman

SUSAN KIRKMAN

Enter
7/12
pa

Enclosure to DTI letter of 4/12/73
Kirkman / Burton.

BRIEF

ON THE

OIL INDUSTRY

IN

IRAQ

SUMMARY

HISTORY AND CONCESSIONS

1 The history of petroleum concessions in Iraq dates back to before the First World War when two Groups were vying for concessions in the area of Mesopotamia which subsequently became Iraq. The original concession areas in Iraq are held by the Iraq Petroleum Company (IPC) (which as the then Turkish Petroleum Company obtained its first concession in 1925), Mosul Petroleum Company Limited and the Basrah Petroleum Company Limited. However, in March 1973, following a long protracted dispute, the IPC Group (IPC, MPC, BPC) surrendered their claims to everything except the Basrah field in South Iraq, (and now ICOO (Iraqi Company for Oil Operations) manages all the northern fields). Since October 1973 the Iraq National Oil Company (INOC) has held a 38% share in BPC. (Paras 1-6)

2 In February 1968, the French State oil company ERAP, signed a service contract with the Iraq National Oil Company. In August 1972 the Brazilian state-owned company (Petrobras) concluded a service contract and in April 1973 it was announced that India will also receive exploration rights on a service contract basis (paras 7-9).

PRODUCTION

3 The economy of Iraq is largely dependent upon the export of oil, and therefore upon the main oil companies INOC, ICOO and BPC, although Iraq has a developed national economy separate from oil production. In 1972 oil represented 94% of Iraq's exports, and since the agreement with the IPC group of oil companies, the country's oil income is expected to rise to over double the 1971 figure by 1976. In spite of this oil production has not risen as fast as in other major oil producing countries with only a 3.8% growth rate from 1962-1972. This was mainly due to the continuing dispute between the IPC and the Iraqi Government. Up to the nationalisation of IPC most of

Iraq's crude was produced by the IPC and affiliate companies. Since nationalisation ICOO have been producing oil from the Kirkuk field. INOC have been very active in getting the North Rumaila field into production as well as exploring in other parts of the country (paras 12-18).

4 Natural gas exists in large quantities in Iraq and is potentially a major source of energy and also a major export item. The gross production figure for 1971 was 219 billion cubic feet, (6.billion cubic meters). On 1 May 1973, Iraq and Turkey signed a protocol for the construction of two pipelines to carry crude oil and natural gas from North Iraq to terminals in Turkey (paras 19-23).

RESERVES

5 Reserves of oil in Iraq (as of 1 January 1973) are estimated by the Oil and Gas Journal to be about 3,940 million tons, equivalent to 37 times annual UK 1972 consumption and 55 times 1972 production. Gas reserves are estimated to be 25,000 billion cubic feet. However, the position could be misleading as due to the IPC dispute exploration in the area has been negligible (paras 25-27).

6 The new posted prices as of 16 October 1973 are:

Basrah	35° API - $5.061/barrel
Kirkuk	36° API - $7.213/barrel

compared with figures on 1 October 1973 of:

Basrah	35° API - $2.977/barrel
Kirkuk	36° API - $4.243/barrel

But the posted price at the East Mediterranean terminals of Banias and Tripoli is hardly used except for reference, as the nationalised oil is contracted at agreed prices to the former shareholders of IPC (paras 28-31).

REVENUES

7 Iraq's revenues from oil have risen from $1.1 million in 1931 to $800 million in 1972. By 1976 revenues could be as high as $2800 million (para 33).

FUTURE PROSPECTS

8 With the settlement of the IPC dispute Iraq has great potential as an oil producer, particularly if new western capital can be brought in. In order to develop the national oil industry, the Iraqi Revolutionary Command Council has approved the allocation of $1,516 million for an expended 10 year programme. The overall objective of the investment is to create a national oil sector capable of raising production at a minimum annual rate of 10% while switching from government financing to funds generated by the production activities of the Iraq National Oil Company (paras 34-37).

9 Following the nationalisation of IPC Iraq's major preoccupation during 1972 was to ensure a favourable outcome of the dispute and to secure markets for the nationalised oil. In this respect she turned to the Eastern bloc for help and they responded by taking some of the nationalised oil. The North Rumaila oil field was developed with Eastern bloc assistance and production is planned to reach 18 million tons by April 1974 and 40 million tons of INOC exports from Iraq by the end of the decade. The projected 22 million ton increase will not involve further output from North Rumaila however, as the field is not capable of producing more than 20 million tons. But given the Soviet preference for barter rather than cash deals the extent of their continuing involvement is in doubt (paras 38-43).

POLITICAL SITUATION

10 The Ba'ath Socialist Party, who came into power in Iraq in 1968, have had poor relations with nearly all their neighbours (excluding Libya) but are

generally on good terms with the Eastern bloc, especially the Soviet Union. Iraq is a founder member of the Organisation of Petroleum Exporting Countries and is also a member of the Organisation of Arab Petroleum Exporting Countries (paras 44-48).

BRITISH INTERESTS

11 Britain still has considerable interest in Iraqi oil. BP and Shell hold 23.75% and 9.5% interests respectively in the Basrah Petroleum Company and take a corresponding share of production. Before the nationalisation of IPC Shell and BP's fixed assets in Iraq had a book value of £44.7 million. Now that a settlement with the IPC has been reached our main interest lies in seeing the Iraqi oil potential brought to fruition (paras 49-52).

OIL AND NATURAL GAS INDUSTRY IN IRAQ

CONTENTS

This paper has been prepared to give an outline of the oil and natural gas industry in Iraq from its early days up to the present time and also attempts to analyse the future potential of Iraq as a major Middle East producer. It contains chapters on:-

ANNEXES TO THE IRAQ BRIEF

OIL AND NATURAL GAS IN IRAQ

A HISTORY AND CONCESSION AREAS

HISTORY

1 The earliest joint agreement by oil companies in Iraq were in 1914 when, at the instigation of the Foreign Office, the new Turkish Petroleum Company (TPC) was founded. The participation of the two groups on this company was:

TPC

(old) Turkish Petroleum Company Ltd		Anglo Persian Oil Company (BP)	
Anglo-Saxon Petroleum (Shell)	22.5%	allied with the National Bank	
Deutsche Bank	25%	of Turkey	- 47.5%

Mr C S Gulbenkian

acting as Middleman with the Turks

5%

After the war the French Company 'Compagnie Francaise des Petroles' (CFP) took over the German interest. When TPC (renamed IPC in 1929) began negotiating concessions with Iraq, the American oil companies saw this as a threat to their dominant position and put effective pressure on TPC to give them a share. The new deal was: Anglo-Persian (BP) 23¾%, CFP 23¾%, Shell 23¾%, Near East Development Corporation (NEDC) 23¾%, and Gulbenkian 5%. NEDC originally represented a group of American companies, but it was soon owned 50/50 by Esso and Mobil. The Iraq concession was finally positioned out in the Red Line Agreement of 1928. The area divided up on the Red Line Agreement covered Turkey, Syria, Jordan, Iraq, Saudi Arabia, Lebanon, Israel and part of the Mediterranean Sea round Cyprus. Kuwait was not included, as it had British protection. Inside the Red Line Area the companies agreed:

(a) Not to compete for concessions or hold individual concessions without seeking the permission of the others.

(b) If a company withdrew from an agreed venture its financial state would be made up by a corresponding reduction in its overall interest in other ventures.

(c) The companies would finance ventures according to their respective shares in TPC and would receive any oil found in the same proportion.

(d) BP would receive an over-riding royalty of 10% (subsequently reduced to $7\frac{1}{2}$%) on oil produced from the TPC concession, as compensation for giving up half their interest to accommodate NEDC.

(e) Oil would be sold to the companies at cost price.

In 1948 the Red Line Agreement was dissolved. The new 1948 Document ratified the 1928 agreement but freed members from the restrictive provisions providing for expansion of production on Iraq and enabling members to acquire Iraq oil in excess of their respective shares.

CONCESSIONS

2 (a) IPC

(i) 14 March 1925 IPC Concession

This was to last for 75 years, and covered 192 square miles, (24 8-mile blocks). IPC was exempt from taxes but the Government received a royalty of 4s gold per ton. There was an obligation to drill within 3 years, and the company struck oil in October 1927, near Kukuk.

24 March 1931 Supplementary Agreement

This extended the concession area to 32,000 square miles, and negated the plot system and drilling obligations. In return,

IPC agreed to construct a pipeline to the Mediterranean by 1935, to increase rent payments and to give the Government oil products at agreed prices.

(ii) 24 May 1926 Anglo-Persian Concession

Iraq validated Iranian concession rights which the company had received from D'Arcy in 1901. After the war these fell within the new State of Iraq. The concession was extended to 1996. Oil had already been discovered at Naft Khaneh in 1923.

(iii) 25 May 1932 British Oil Development Company Ltd

The 75-year concession granted to this company was similar to that of IPC except that the Government received 20% of the petroleum produced, either in value or kind. In 1941 the company became the Mosul Petroleum Company Ltd. (MPC). In 1939 oil was found at Ain Zalah but was not developed till 1952 because of the war and higher royalty provisions.

(iv) November 1938 Basrah Petroleum Company Ltd (BPC)

The remaining part of Iraq was leased to this company, an affiliate of IPC, on terms similar to those of MPC. They discovered the Zubair oil field in 1949. The Rumaila field, discovered in 1953, subsequently became the principle field.

3 However, the IPC group have found growing problems in Iraq since the Quassim coup in July 1958. (See Annex II for details). In 1961 Law 80 was passed, expropriating 99.5% of the IPC, MPC and BPC concession area (and part of the Zubair field) - ie everything except the fields actually in production. On 8 February 1964 the Iraq National Oil Company (INOC) was

formed to control the expropriated fields, including the undeveloped N Rumaila field, which had been part of the BPC concession. INOC's original intention was to start a joint exploration of W. Rumaila with a foreign company, but none of the offers received were sufficiently advantageour to Iraq. On 10 April 1968 INOC announced it would develop the field on its own. In June 1972 Law 69 decreed the nationalisation of IPC, and therefore of the Kirkuk, Jambouk and Bai Hassan oilfields. A new company, the Iraqi Company for oil operations (ICOO) was formed to manage these areas. The MPC concession was relinquished without compensation, and under the terms of the settlement in March 1973 the IPC group gave up all rights in Iraq other than ownership of BPC. Law 229 of 1970 with its strict drilling and export regulations still raises difficulties for independent oil companies. A clause on compensation for wasted gas and oil could mean, at the Government's discretion, that companies would have to pay for all the gas they had ever stored.

4 7 October 1973 Nationalisation of Exxon and Mobil

Following the outbreak of the Arab-Israeli war on 6 October 1973 Iraq nationalised Exxon and Mobil. (Law 70). Officially this was as a protest against US support for Israel, but the evidence suggests that the move had been well prepared. Exxon and Mobil held a joint share of 23.75% in BPC, (Exxon 11.875%/Mobil 11.875%), operating through their common subsidiary, the Near East Development Corporation. During the first half of 1973 BPC's production averaged 663,000 b/d (33.15 m tons/year). The nationalised 23.75% share transferred to INOC corresponds currently to a production of about 8.0 m tons/year.

5 21 October 1973 Nationalisation of Dutch interests in BPC

During the Arab-Israel war, the Netherlands became more and more unpopular with the Arabs because of its known sympathy towards Israel. Iraq was the first Arab State to take action by nationalising the Dutch interests in BPC. (Law 90). These interests represent 60% of the 23.75% share held by Shell in BPC, (the other 40% being held by British Shell), or 14.25% of total BPC shares. BPC production during the period January-August 1973 amounted to 674,900 b/d (33.7 m tons/year). The nationalised share transferred to INOC corresponds to 96,173 b/d (4.8 m tons/year). The new position is as follows

6 TOTAL IRAQ PRODUCTION 1973 (on the basis of Jan-June figures) - 94.15 m tons/year

	million tons/year	% Iraq Total Production
INOC production before October	60.45	64.2
Mobil and Exxon share in BPC	8.0	8.5
Royal Dutch Shell Share in BPC	4.8	5.1
INOC Production after October	73.8	77.8
Remaining BPC interests	20.9	22.2
	94.15	100.0

BPC Production 1973 - 33.7 m tons/year

(on the basis of Jan-June figures)

	million tons/year	% BPC Production
CFP	8.0	23.75
BP	8.0	23.75
Shell (British)	3.2	9.50
Participations and Explorations Corp	1.7	5.0
INOC	12.8	38.0
	33.7	100.0

BPC Production in 1973

Figures as revised after October

	m tons	
	25.3 (Jan-Sept)	30.5 m tons/year
	5.2 (Oct-Dec)	

The Iraqis who now have a 38% share in BPC, may well seek to go further and dissolve it in its present form so as to reconstitute it as an Iraqi registered company. The remaining majors, (CFP, BP and British Shell) would be compensated on the basis of privileged long-term contracts similar to those negotiated by CFP in Kirkuk.

7 ERAP

In February 1968 the French State Oil Company, ERAP, signed a service contract with INOC to explore for oil in three areas. Up to now ERAP has made three discoveries: Bazurgan with several productive wells, and Abu Ghirab, both in the Amara district near the Iranian frontier, and Siba in the south in the Basrah area. Development of these fields was held up by lack of agreement between ERAP and INOC over conditions. However, on

13 May 1973 the two sides finally signed an agreement to develop the oilfields at Buzurgan and Abu Ghirah with initial production forecast at 8 million tons a year. (See Annex III for details).

8 PETROBRAS

On 6 August 1972, the Iraq National Oil Company concluded a service contract deal with the Brazilian state-owned company Petroleo Brasileiro (Petrobras). Under the agreement Petrobras will carry out oil exploration and development operations in three areas in central and southern Iraq totalling 7,900 sq kms, acting as contractor to INOC. All three are exploration where no oil has yet been discovered. Seismic surveys are now being carried out. (See Annex III for details).

9 INDIA

In April 1973 it was announced that India will receive oil exploration rights on a service contract basis in southermost Iraq's desert. It covers 4175 sq kms. India signed a contract on 22 August 1973 and its commitment is said to be approximately I.D 3.5 million. India will bear all risk in the venture and in the event of a discovery will be entitled to a share of output at a preferential price, plus an option to lift Iraq's share at the then prevailing price.

10 RUMANIA, BULGARIA AND HUNGARY

Rumania as part of its $35m credit agreement of 28 October 1971 is reported to have signed contracts for drilling in the East Baghdad and Jebel Hamim areas, and for seismic work in these and the Diyala area.

Bulgaria under its $14m credit agreement of 29 September 1970 is reported to have signed contracts for seismic work at drilling in the north of Iraq. Mitiyah, Sujaiyah, Kand, Sassan and Raffam have been mentioned.

Hungary signed a drilling contract valued at $2.8m on 21 October 1969 in connection with a $15m loan made in October 1969.

Work has not started in Rumania and Bulgaria, Hungary has been drilling since 1972, but no oil has as yet been found.

11 SHELL/CFP CONSORTIUM PROPOSAL

Recently (July 1973) Shell and CFP proposed a European consortium involving themselves, Italian, German and possibly other oil companies to undertake large-scale oil exploration and development in Iraq. Production could be of the order of 100m tons/year by 1980 and the great bulk of the oil would be sold to the consortium at market prices less a brokerage allowance. In return Iraq would receive assistance with major economic projects in the form of equipment, pump priming finance, and technical advice. This would be paid for out of the anticipated oil revenues but would be arranged by governments. The projects might eventually be running at a rate of perhaps £400m a year. The proposals require the backing of the individual governments involved, who would have to guarantee the investment both in oil exploration and subsequent development, (an estimated total of £230m in over 5-6 years) against the obvious political risks.

However, the nationalisation of the Dutch interest in Shell's share of BPC on 21 October 1973 could well have far-reaching effects on the project, and the situation will have to be reviewed.

Oil will remain the major source of income for a long time to come, however, and it is planned to increase output to about 165m tons in 1976 compared with 82.4m tons (NEED) in 1971. This doubling of the oil output should double the oil income by 1976 since more than half the production will be produced directly by the State, and by then the State should own a large proportion of the equity of BBC, the one remaining foreign oil company, under the terms of the Gulf participation formula above.

13 Oil production in Iraq (see Annex IV) has not risen as fast as in other major oil producing countries of the Middle East mainly because of the differences between the IPC and the Iraq Government which began with the advent of General Qasim in 1958 (Annex II). In the early fifties production from Iraq increased very rapidly, especially while Iranian oil was unavailable, and in 1953 it reached its peak proportion of Middle East output of 24% (28 million tons). During this period HMG, like the oil industry, considered Iraq to be the safest producer in the Middle East and urged on its development. The picture changed dramatically when Qasim came to power in 1958 and with the passage of Law 80 in 1961.

14 The continuing dispute between the IPC and the Iraq government between 1961 and 1973 has resulted in a sad decline in the rate of growth of Iraqi production. In 1966 its proportion of Middle East output had fallen to 15% (68 million tons) and by 1972 this had dropped to only 7.9% (72 million tons). The growth rate of Iraqi production from 1962 to 1972 represents only a 3.8% rise compared to a Middle East average rise of 11.3% during this period.

15 Up until the nationalisation of IPC apart from a small amount of crude oil produced by INOC, all of Iraq's crude was produced by the Iraq Petroleum Company, Basrah Petroleum Company and Mosul Petroleum Company who each produced from separate oilfields. Most of the production came from the fields which

were operated by the IPC-Kirkuk, easily the largest, Bai Hassan (North Iraq and Jambur. Since nationalisation the Iraq Company for Oil Operations (ICOO) has been producing oil from the fields of Kirkuk, Jambour and Bai Hassan

PRODUCTION BY COMPANY

Company	1964	1965	1966	1967	1968	1969	1970	1971	1972
I.P.C.*	41.7	43.9	42.7	37.6	54.8	55.6	56.9	51.1	36.9
B.P.C.	17.3	18.0	22.7	20.0	16.5	17.0	17.1	30.1	32.0
M.P.C.	1.3	1.3	1.3	1. 3	1.3	1.4	1.3	1.3	1.1
I.N.O.C.									1.6
TOTAL	60.3	63.2	66.7	58.9	72.6	74.0	75.3	82.5	71.6

16 On the occasion of the first anniversary of the nationalisation of IPC the following information on the activities of the Iraqi Company for Oil Operations (ICOO) over the year was made public:-

PRODUCTION - In 1971 before nationalisation production from the Kirkuk fields was 53 m.tons/year. 1972 the year of nationalisation produced only 36m. tons/year, however estimated figures for 1973 suggest a figure of 61m. tons/year. Total production figures are:-

1971 - 85m tons/year, 1972 - 72m tons/year and 1973 - an estimated 94m tons/year.

Gas imports and exports

EXPORTS - Total exports for 1971 were 57m tons/year. In the 11 months from 1 June 1972 - 30 April 1973 exports totalled 29.7m tons, of which 28.1m tons were exported from the Tripoli and Banias Terminals. Estimates for 1973 suggest total exports of 65m tons/year, of which 59m tons went through the East Mediterranean terminals.

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* Includes production of 15.9 million tons by IPC up to nationalisation of 1 June and subsequent estimated production by ICOO.

PRODUCTION IN 1972

million tons

IPC	18.9	(from 1 January - 31 May)
MPC	1.2	
BPC	32.0	
INOC	2.0	(from April 1972)
ICOO	13.9	(from 1 June - end of 1972) former IPC

(BP Figures)

PRODUCTION

	1973	1974	1975	1976	1980
ICOO (former IPC) fields	58	62	67	68	68
BPC	35	45	65	80	80
ICOO (former MPC)	1	1	1	1	1
INOC (North Rumaila) etc.	8	16	29	39	39
TOTAL	102	124	162	180	180

(BP Figures)

REVENUES

$ m

1972	1973	1974	1975	1976	1980
800	1,550	3,476	4,272	4,438	7,391

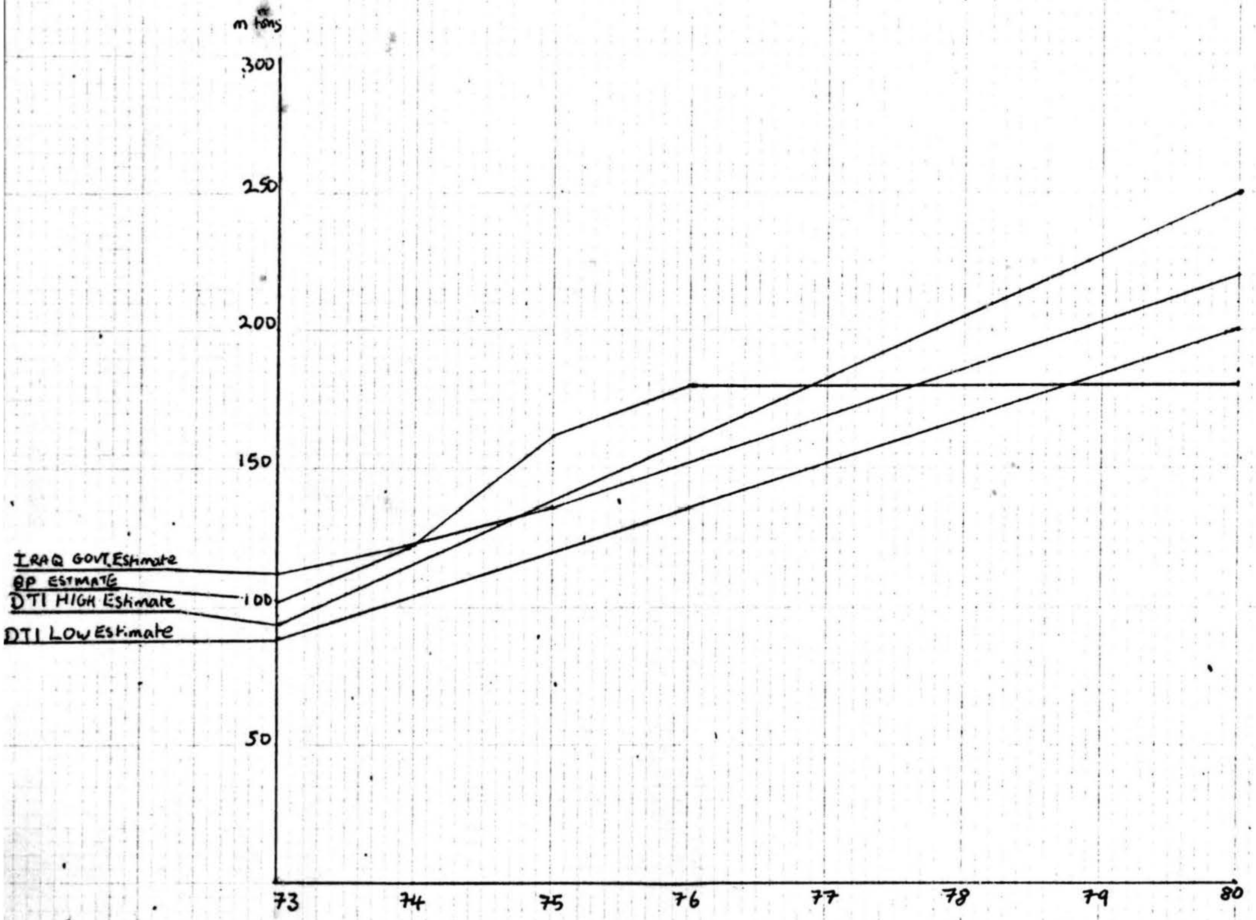
These revenues were estimated on the basis of a posted price of $4.50/barrel in 1980. However estimates will have to be revised in view of the OAPEC announcements of 16 October 1973 which set no limit on the rise in posted prices.

IRAQ OIL PRODUCTION ESTIMATES

	1973	1974	1975	1980
D T I Low Estimate				200
D T I WEP Estimate	97	127	152	
D T I High Estimate				250
IRAQ Govt. Estimate	113	124	136	220
BP Estimate	102	124	162	180

INOC OIL PRODUCTION FORECASTS
(Million tons)

(BP FIGURES)	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
North Rumaila	2.5	8	14	18	18	18	18	18	18	18
Nahr 'Umar			1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Ratawi			0.75	3	3	3	3	3	3	3
Jambur					5	10	14	14	16	18
Luhais & Raji				4	4	4	4	4	4	4
Halfaya					3	3	3	3	3	3
Khanaquin					2	2	2	2	2	2
Dujaila & Mihanya								2	2	2
South Rumaila Extensions				3	3	3	3	3	3	3
Kafel									1	2[illegible]
Erap contract zones							10	10	20	20
TOTAL	2.5	8	16.25	29.5	39.5	52.5	72.5	76.5	91.5	94.5



IRAQ OIL PRODUCTION ESTIMATES

DRILLING - In the first year of its operations ICOO completed the drilling of four wells - two in the Kirkuk field and two in the Bai Hassan field - and has started to drill a fifth well in the Jabal Hamrin area.

17 The Iraq National Oil Company have also been very active especially in getting the North Rumaila oilfield into production, and are also occupied in other parts of the country including Ratawi (South Iraq E3) and Nahr Umr (F3). They have also begun preparations for the development of the Luhais (E3) field and in the al-Ahwar (E3) area in South Iraq. Production from the Nahr Umr field is scheduled to begin in 1974 at an initial output of 30,000 b/d (1.5 million tons a year).

18 INOC operations are already underway in Northern Iraq, where the Hungarian firm Chemokoplex have been drilling wells which it contracted to drill for INOC in the Jambur field. Oil produced by INOC from the Jambur field is to be piped through a spur line connected to the projected 1,250 km pipeline linking South Iraq to a Syrian port on the Mediterranean coast. The structure on which Chemokomplex is drilling is understood to be an extension of the producing Jambur field in the IPC concession area. In 1970, IPC produced an average of 9,900 b/d from Jambur. (Activities of INOC are more fully dealt with in para 37 and in Annex V).

(b) NATURAL GAS

19 Natural gas, existing in large quantities in Iraq as a byproduct of crude oil and in gas wells is potentially a major source of energy and a major export item. Most of the byproduct gas is now being flared, and the gas wells are not producing. Studies of the feasibility of exporting gas by pipeline to Turkey, however, were put underway, but the Turkish Government decided to cancel bids for a feasibility study of the pipeline thus putting the whole project into doubt. However, on 5 December 1971, a delegation

representing the Turkish Petroleum and Natural Gas Corporation concluded talks with officials of INOC in Baghdad when it was agreed that Turkey would carry out the necessary technical and economic feasibility studies for the project.

20 On 27 August 1973 Iraq and Turkey concluded an agreement for the construction of a crude oil pipeline linking Iraq's northern oil fields at Kirkuk to the Mediterranean port of Dortyol in southern Turkey. The pipeline, covering 1,126 kms is scheduled for completion in 1976, its capacity will be 25 million tons in 1977-79, rising to 35 million tons in 1983. The cost is estimated at $350-380 mm.

21 The projected Iraq-Turkey natural gas pipeline will stretch from Kirkuk to Batman in south eastern Turkey and is estimated to cost between $90-150 million, with an initial capacity of 200 million cubic feet a year.

22 On 29 June 1973 the French firm Compagnie des Compteurs signed a contract to supply ICOO with a crude oil pipeline from Kirkuk across Syria to Mediterranean Terminals. Iraq estimate this will mean an increase in crude exports of 10 million tons a year.

23 On 26 May 1970 Iraq signed a contract with Spain in which Spain agreed to provide seven oil tankers, each with a capacity of 35,370 tons, to be paid for with crude oil from INOC. The final delivery was scheduled for the end of 1973. These seven tankers make up the entire Iraqi fleet. The tankers are of small capacity because the terminal at Fao is too shallow for ordinary tankers. The Basrah oil field requires large tankers, but at present its only outlet is at Fao. There is a shallow-water port terminal at Khor-al-Amaja which links up with the North Rumaila field; however INOL intends to build a deep water port south of Fao. According to an estimate published in July 1973, the terminal will cost $61 million and will accommodate six 350,000 dwt tankers at the same time. Its annual capacity

will be 25m. tons possibly rising to 40m. tons.

24 In December 1969 the Czechoslovakian firm Technoexport signed an agreement with Iraq to build a 70,000 b/d refinery at Basrah, scheduled for completion in 1973, at a cost of 1,024 million.

C RESERVES

(a) OIL

25 Proven reserves of oil in Iraq are estimated by the Oil and Gas Journal to be about 3,944 million tons, which is equivalent to approximately 37 times current annual UK consumption. By comparison, proven oil reserves in the North Sea are in 1973 estimated at 800 million tons. At 1972 rates of production, Iraq's reserves will last for about 55 years.

26 However, it should be stressed that these figures for reserves could be, and probably are, very misleading. Due mainly to the dispute between the Iraq Government and the IPC, exploration in Iraq has been virtually at a standstill and the reserve position is, therefore, probably understated. It is thought that the unexplored areas of Iraq are very promising, and, in fact, the potential of Iraq could be second only to Saudi Arabia.

(b) NATURAL GAS

27 According to the Oil and Gas Journal (25 Dec. 1972) Iraq's proved gas reserves are estimated to be 25,000 billion cubic feet. However exploration in Iraq is far from complete and it is assumed, as for oil, that the future potential as regards gas reserves is promising.

D FINANCIAL ASPECTS

(a) COSTS

28 The average cost of producing a barrel of crude in South Iraq (BPC) is about 12 cents. This compares to 6 cents in Kuwait, 12 cents in Iran,

13 cents in Saudi Arabia and about 15 cents in Abu Dhabi, (ADPC), i.e. onshore production.

(b) PRICES

29 The posted price of crude oil from 1950 up to date showing the type of crude, gravity and port was as follows:-

PORT, TYPE OF CRUDE AND GRAVITY API   US dollars per Barrel

Date effective	Fao		Tripoli/Lebanon -Banias/Syria		Banias	Khor Al Amaya	
	Basrah 36.0-36.9	Basrah 35.0-35.9	Kirkuk 36.0-36.9	Kirkuk 35.0-35.9	Bai Hassan/ Jambur 34.0-34.9	Basrah 35.0-35.9 CFP	Basrah 35.0-35.9 Shell
1950 Oct 2			2.41				
1953 Feb 5			2.29				
Apl 1	1.75						
Jul 16	1.92						
Jul 20		1.90					
1956 Feb 5			2.46				
Feb 10	1.87						
Feb 17		1.85					
Dec 8				2.67			
1957 May 28	2.00						
May 30		1.98					
Sep 10			2.59	2.57			
1958 Jan 31			2.49	2.47			
1959 Feb 13	1.82	1.80	2.31	2.29			
1960 Jun 5					2.17		
Aug 9		1.68	2.15	2.19	2.03		
Aug 16	1.74		2.21				
Sep		1.72			2.07		
1962 Apl 2						1.78	
Apl 12							1.72
1970 Sep 1			2.41	2.39	2.27		
1971 Feb 14						2.16	
Mar 20			3.21				
Jun 1						2.26	
1972 Jan 20			3.40			2.45	
1973 Jan 1			3.48			2.56	
Jun 1			3.92			2.87	
Aug 1			4.22			3.03	
Oct 1			4.24			2.98	
Oct 16			7.21			5.06	

30 Following the Tehran agreement of February 1971, the Iraqi Government and the IPC group of companies signed an agreement on 7 June 1971, with progressive posted price escalations up to the end of 1975, settling the question of posted prices for Iraqi crude exports from the East Mediterranean terminals of Banias (Syria) and Tripoli (Lebanon) - as well as a number of other financial issues. (See Annexed VI and VII for exports of crude oil and products by source).

31. Under this agreement, the posted price of 36° API North Iraq's crude at the East Mediterranean terminals of Banias (Syria) and Tripoli (Lebanon) was raised by 80.1 cents/barrel to $3.211. Although Iraq did not succeed in its attempts to secure a quality compensation in its new posted price to balance the lack of the 10 cent low-sulphur premium (as granted to the Libyan Government in April 1971), it nevertheless made up for this with a number of other benefits - including a lump-sum payment of £20.2 million gross (£13.9 million net), a four year interest free loan of £10 million plus deferment of repayment of an earlier £20 million loan and new commitments for production increases, unrelated to this agreement, of BPC crude in South Iraq.

31 (i)
On 16 October 1973 the Organisation of Arab Exporting Countries (OAPEC) unilaterally imposed increases amounting to 70% on posted prices. The figures for Iraq were:

Basrah 35° API - $5.061/b
Kirkuk 36° API - $7.213/b

as compared with figures on 1 October 1973 of:

Basrah 35° API - $2.977/b
Kirkuk 36° API - $4.243/b

Financial Details of the New Basrah Posted Price

Basrah 35° API -	Posted Price on 16 October 1973	- $5.061
	Government take including: 12.5% royalty and 55% income tax	- $3.002
	Tax paid cost	- $3.122
	Realised price, 40% lower than posted price	- $3.61

32 The June 1971 agreements - together with the BPC price agreement of February 1971, represented the first major settlement signed between the Iraq Government and the IPC group since the 1958 revolution.

(c) REVENUES

33 Iraq's revenues from oil have risen from $1.1 million in 1931 to $840.1 million in 1971 (see Annex VIII). However, over the last few years the rate of increase in production, due to the IPC dispute, has been very low. Now that the dispute has been settled, production and, therefore, revenues are likely to increase considerably.

E FUTURE PROSPECTS

(a) GENERAL

34 The whole future of Iraq production and oil revenues lay with the settlement of the IPC dispute. Without an agreement, and especially if crude produced by INOC from the expropriated North Rumaila field and continued to be "blacked" on the market, the rate of growth of production would probably have remained low. In fact due to the nationalisation of IPC, production in Iraq declined by about 14% in 1972. With the dispute settled prospects are better, but it is still difficult to assess just how important Iraq will be in the oil world. Certainly the present reserves/production ratio is high. But it is also possible that if the exploration programme is expanded Iraq could one day be a producer second only to Saudi Arabia. There has recently been talk, at present at a very preliminary stage, of an EEC backed consortium becoming involved in new exploration.

35 In order to develop the national oil industry in December 1971 the Iraqi Revolutionary Command Council approved the allocation of 499 million dinars (about $1,516 million assuming the rate of ID1 = $3.04) for an expanded 10 year programme, of which ID 424 million are to be spent by

inoc and ID 75 million by the newly created Iraqi oil tanker company. The overall objective of the investment is to create a national oil sector capable of raising production at a minimum annual rate of 10% while switching from government financing to funds generated by the production activities of the Iraq National Oil Company by 1975.

36 The programme includes INOC's geological and seismic surveys as well as exploration and development drilling, production, transport and export facilities, natural gas development, financial and marketing programmes.

The main targets of the new ten year programme are:-

1 Diversification of Iraq's oil reserves in order to develop resources of various types of crude oil supplies - light, medium and heavy - and to increase discovered reserves through an accelerated exploration programme.

2 Improvement of the effectiveness of INOC in exploration, drilling, production and transport operations, and its provision with adequate equipment for these activities.

3 The expansion of pipeline and export facilities on the Arabian Gulf and of a new deep-water terminal in the Gulf capable of handling mammoth tankers.

4 Construction of a large-diameter pipeline from South Iraq to the Mediterranean via Syria.

5 The establishment of an oil tanker fleet, beginning with small tankers and building up to VLCC's.

6 The drawing up of plans for the exploitation of natural gas and for the oil processing industries.

7 A technical training programme for INOC to match the rapid development of the oil industry.

37 Under the programme INOC's oil production targets envisage an annual output of 242 million tons (4.84 million b/d) by 1981.

(b) INOC PROJECTS AND SOVIET INTEREST IN THE AREA

38 Following the nationalisation of IPC on 1 June 1972, Iraq's major pre-occupations during 1972 were to ensure a favourable outcome of the dispute and to secure markets for the nationalised oil. She turned to the USSR and other countries of the Soviet bloc for help in this latter objective, and they responded in every way possible to them, although there were very clear limitations to the amount of oil they could take. When the dispute with the IPC was finally resolved on 28 February 1973, Iraq once more obtained access to Western oil markets. However, she still remains indebted to the bloc countries for the continuing short and medium term help they provided under agreements which still have some years to run.

39 Between 1969 and 1971 Iraq received economic credits from virtually all the countries of the Soviet bloc; these required total or partial repayment in crude oil, which was then expected to come from the North Rumaila oil fields, to be developed with both Soviet and Hungarian aid. Barter deals of this nature did not, therefore, provide hard currency earnings for Iraq; furthermore, because of the time-scale over which a credit is disbursed and scheduled repayments take place, neither did they specify the shipment of sizeable quantities of oil in the future following the agreement. In April, 1972, however, the Soviet oil concern Soyuznefteksport signed a contract to purchase 1 million tons of Rumaila crude in 1972 and 2 million tons annually in the years 1973-75.

40 After nationalisation in June 1972, political and other difficulties prevented Iraq from selling much of the Kirkuk crude openly in the hard

currency markets of the West, and attempts were made to conclude new barter deals with the Communist bloc. Existing credits were re-negotiated to allow Iraq to repay them 100% in crude oil and new credits on similar terms were obtained from Poland and Hungary. Separate purchase agreements by the bloc states were not announced but by the end of July 1972 East German, Bulgarian and Russian tankers were lifting oil at Banias. The exact quantities of oil involved in these deals is not known, neither is it clear to what extent they superseded or supplemented agreements signed prior to 1 June. However, it was recently announced that in 1972 the USSR purchased 4 million tons of crude oil from Iraq. If one million tons represents North Rumaila oil lifted from Fao under the agreement of April 1972, the remaining 3 million tons must be Kirkuk oil lifted on Soviet account from Banias. It is virtually certain that this oil was not retained in the USSR but was trans-shipped by the Russians to other third party countries in Eastern Europe and elsewhere. Hungary also announced her 1972 purchases of Iraqi oil as half a million tons but the origin of the oil was not disclosed. Total sales of Kirkuk oil from 1 June to the end of February 1973 to all customers have been reported as over 20 million tons, but a large proportion of this no doubt went to France, since, with the agreement of IPC, the French continued to take a share of Kirkuk oil approximately proportional to their stake (23.75%) in the consortium.

41 The future prospects of Iraqi oil exports to the Soviet bloc are not clear. Under existing agreements purchases of Iraqi oil, from all fields, are due to increase. Hungary is reported to be contracted to purchase one million tons in 1973 and the USSR has said that its purchases will increase substantially. With the February settlement however, Iraq has regained access to her hard currency markets in the West and has been reported to be unwilling to sign any new barter agreements involving oil, except in special

circumstances. It has been stated in the press that Iraq has made it clear to the bloc that additional purchases must henceforth be on the basis of cash sales. This is unlikely to affect existing agreem ents but may well limit the conclusion of new contracts with the Eastern bloc. Since then, however, there have been two new barter agreements in 1973 which suggest that Iraq does not wish to lose contracts from the Eastern bloc. Should total Soviet bloc purchases rise as high as 10-15 million tons in 1973, this amount is nevertheless still small when compared with a total Iraqi oil production which should recover at least to its 1971 level of 83 million tons, and which is, in fact, projected to rise much higher.

42 In addition to purchases of Iraqi crude oil, the bloc countries have nearly all made agreements with Iraq for the further development and exploitation of potential oil bearing areas and/or for construction of refineries. Such assistance has been, in the main, restricted to development of the fields in the North Rumaila area, whose production is planned with bloc aid to reach 18 million tons by April 1974 and 40 million tons by the end of the decade. The Russians are to build a refinery at Mosul; some of the East Europeans have tentative arrangements for exploration in the North and the Rumanians are to explore the Diyala area between Baghdad and the small Naft Khaneh field.

43 Over the past few years the Iraq Government have concluded a number of agreements with other countries covering the development of oil and other resources. Although our knowledge of these deals is very sketchy, the details as far as we know them are summarised in Annex V.

F POLITICAL SITUATION

44 The Ba'ath Party came into power in Iraq in 1968 and appear to be very firmly entrenched. Political decisions are made by the Revolutionary Command

Council, whose Chairman, Vice President Saddam Hussein al Tikriti, is the most powerful man in the Iraq Ba'ath Party.

45 In the past Iraq has had bad relations with most of its neighbours (excluding Libya), and our own relations with the Government, which have been cool for some years, worsened considerably towards the end of 1971, eventually culminating in the Iraqis breaking off diplomatic relations in December and accusing HMG of collusion with the Iranians over Iranian occupation of the islands of Greater and Lesser Tumb in the Persian Gulf. However the general climate has improved somewhat following the settlement of the IPC dispute.

In a press conference in July 1973, Saddam Hussein al Tikriti acknowledged that contact had been taking place with the Iranian Foreign Minister and described the Iraqi owned incursion into Kuwait several months earlier as a mistake. He was also concilliatory towards Britain, the United States and West Germany, three states with whom Iraq no longer has diplomatic relations. An indication of the tenuous relationship between political and economic policies in Iraq is that Britain in 1972 continued as Iraq's first supplier (ID 22.7m), with West Germany supplying ID 11.3m and the US ID 9.6m.

46 The Iraq Government have generally been on good and close relations with the Soviet Union, and with the Eastern bloc generally, and although there were some tentative signs that the Iraqi leaders would prefer to become less dependent on the Russians an Iraqi-Soviet "treaty of friendship and co-operation" was signed on 9 April 1972 which agreed on a wide range of co-operation in political, economic and military fields and regular consultations on important international issues affecting Soviet and Iraqi interests.

47 Iraq is a founder member of the Organisation of Petroleum Exporting Countries (OPEC) and is also a member of the Organisation of Arab Petroleum exporting countries.

48 . Iraq is geographically vulnerable in that Iran could block exports through the Gulf and Syria could block those across its territory to the terminals at Banias and Tripoli. However in addition to big crude oil pipeline projects to link with Turkey and Syria, there are projected oil products pipeline inside Iraq; and a pipeline could be built to link Northern and Southern fields, and thus provide alternative outlets in case of disputes with Iran or Syria.

(a) Dispute with Iran

This came to a head over the sovereignty of the Shatt-Al Arab waterway. In Iran the Shah denounced the 1937 agreement which gave Iraq complete control of this important boundary river. Iran took military measures to enforce its claims to navigational and rights. Another source of trouble was Iranian assistance to Borzani, the leader of the Kurdish tribal groups in W. Iraq. Baghdad and Tehran were involved in subversion against each other - e.g. Tehran's abortive coup attempt in January 1970 and Baghdad's assistance to Iranian terrorists. Iran and Iraq are also rivals for influence in the smaller Gulf States.

(b) Activities in the Gulf

Iraq's wish to extend influence in the Gulf was demonstrated when Abdul Karim Qasim, leader of the 1958 revolution advanced claims to Kuwait, precipitating fears that he was preparing for military action to enforce his demands. After his overthrow, however, the short-lived 1963 Ba'ath regime in Baghdad renounced these claims, and succeeding governments have not revived them. Commercial and political links with Kuwait have been renewed, and Iraq has established connections with Bahrian.

(c) Syria

As well as disputes over pipeline transit fees and the use of the Euphrates waters, Iraq and Syria have conflicted over Iraq's harbouring of Syrian

dissidents. Iraq has in the past prided itself on its revolutionary image and has therefore been favourably disposed towards groups such as the Popular Front for the Liberation of the Occupied Arab Gulf.

(d) Other Arab Regimes

Since the Iraqi forces withdrew from their forward bases in Jordan near the ceasefire time with Israel, relations with Jordan have improved, and despite a general antipathy to monarchies, a working relationship has been established with the Saudi Arabian government. There is still however, competitive feeling between Iraw and Egypt, although this has lessened since President Sadat came to power after Nasser's death.

(e) Turkey

Except for a short interval under Qasim, Iraqi governments have traditionally maintained good relations with Turkey. They share an interest in arriving at equitable arrangements for the use of the Euphrates waters. The signing of the agreement on the Iraq-Turkey oil pipeline, and recent exchanges of high level visits have confirmed good relations for some time to come.

(f) Arab-Israeli Dispute

Iraq has been relatively little involved in actual fighting. Troops were stationed in Jordan and Syria from the end of the 1967 war to 1971, to show solidarity with the Arab cause, but Iraq has avoided being drawn into a leading role. Iraq's attitude to Israel is uncomprising. The Iraqis reject UN Resolution 242 and oppose concessions to Israel as part of a settlement, and would speak out against any Arab moves to reach agreement with Israel.

In the Arab-Israli war which began on 6 October 1973 Iraq's military involvement was minimal, but strong verbal support was given to the arab cause. Iraqi troops were sent to Egypt and Syria, but were withdrawn after the ceasefire on 23 October, disappointed that Syria and Egypt had not taken a firmer line.

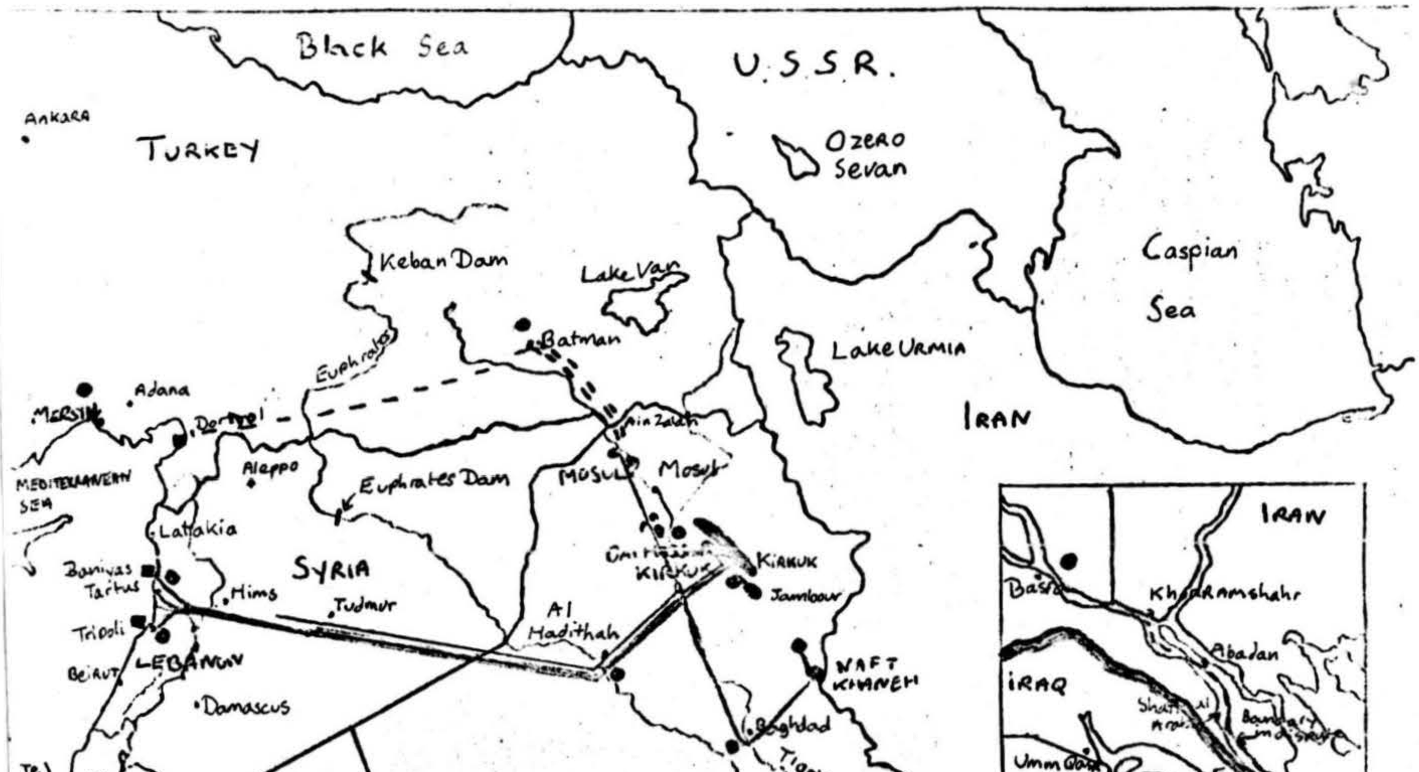
G BRITISH INTERESTS

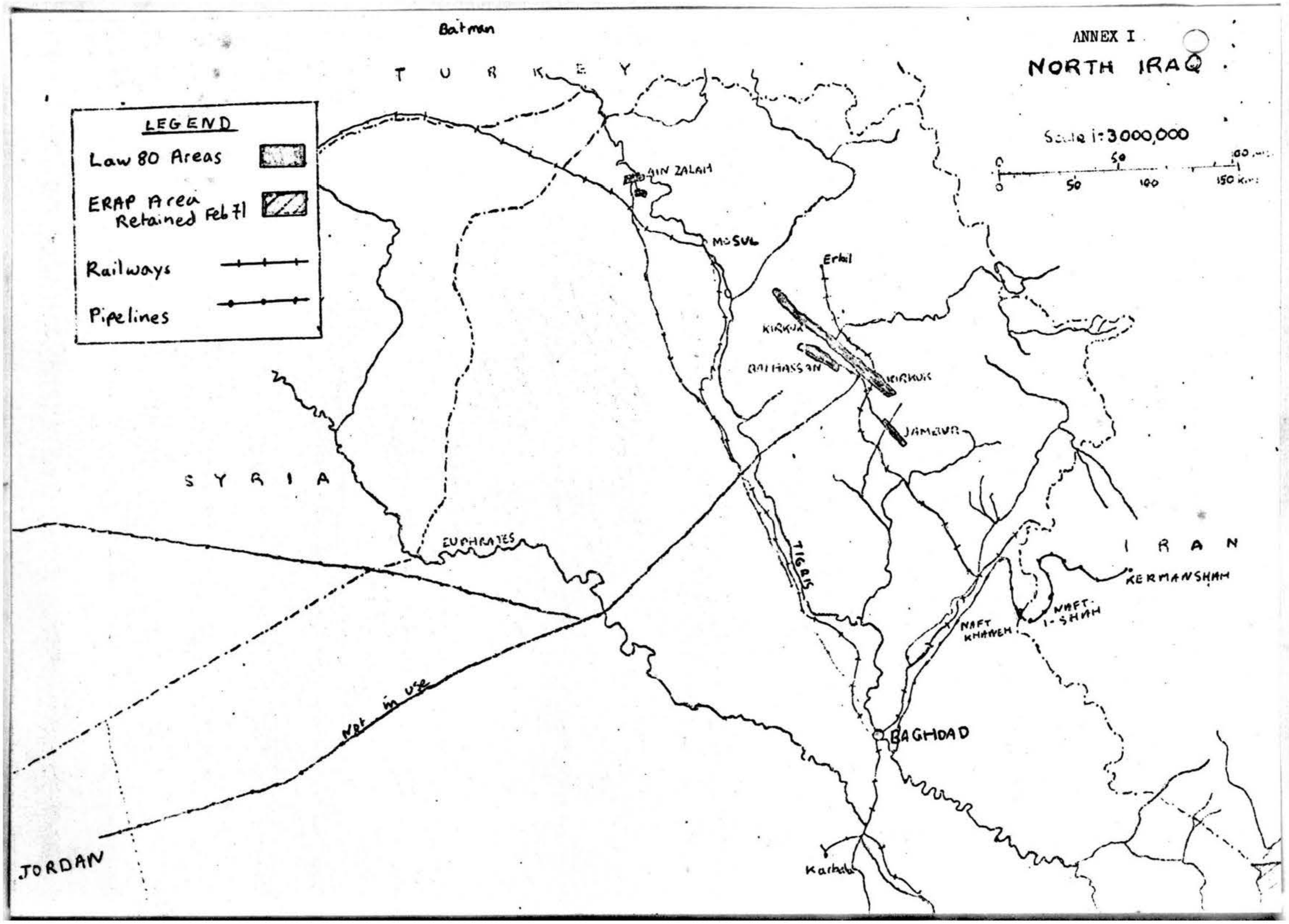
49 Britain still has considerable interests in Iraqi oil. BP and Shell hold 23.75 and 9.5% interests respectively in Basrah Petroleum Company and take corresponding shares of the production. Before the nationalisation of IPC Shell and BP's fixed assets in Iraq had a book value of £44.7 million.

50 The Basrah Petroleum Company assets include a pipeline system from the Rumaila-Zubair fields to Fao (see Annex IX and X for major oil and gas pipelines), and investment in the deep water terminal for large tankers at Khor al Amaya.

51 In the past Britain was interested in Iraqi oil for more general reasons. The Iraqi economy was completely dependent on oil revenues, and it was thought that if no agreement could be reached with the IPC and the revenues were drastically curtailed, the Iraq Government might have no alternative but to "throw in their lot" with the Soviet Union, with perhaps serious consequences which could affect the whole Middle East and therefore other British interests. The successful development of North Rumaila, in the face of IPC opposition might have had awkward repercussions and threaten the position of BP, Shell and the other Majors elsewhere in OPEC. There was also the possibility of losing out completely on the development of Iraq's great potential. On the other hand, too generous a settlement by IPC could have adversely affected the parent companies elsewhere. Consequently there was a strong British interest in a reasonable settlement.

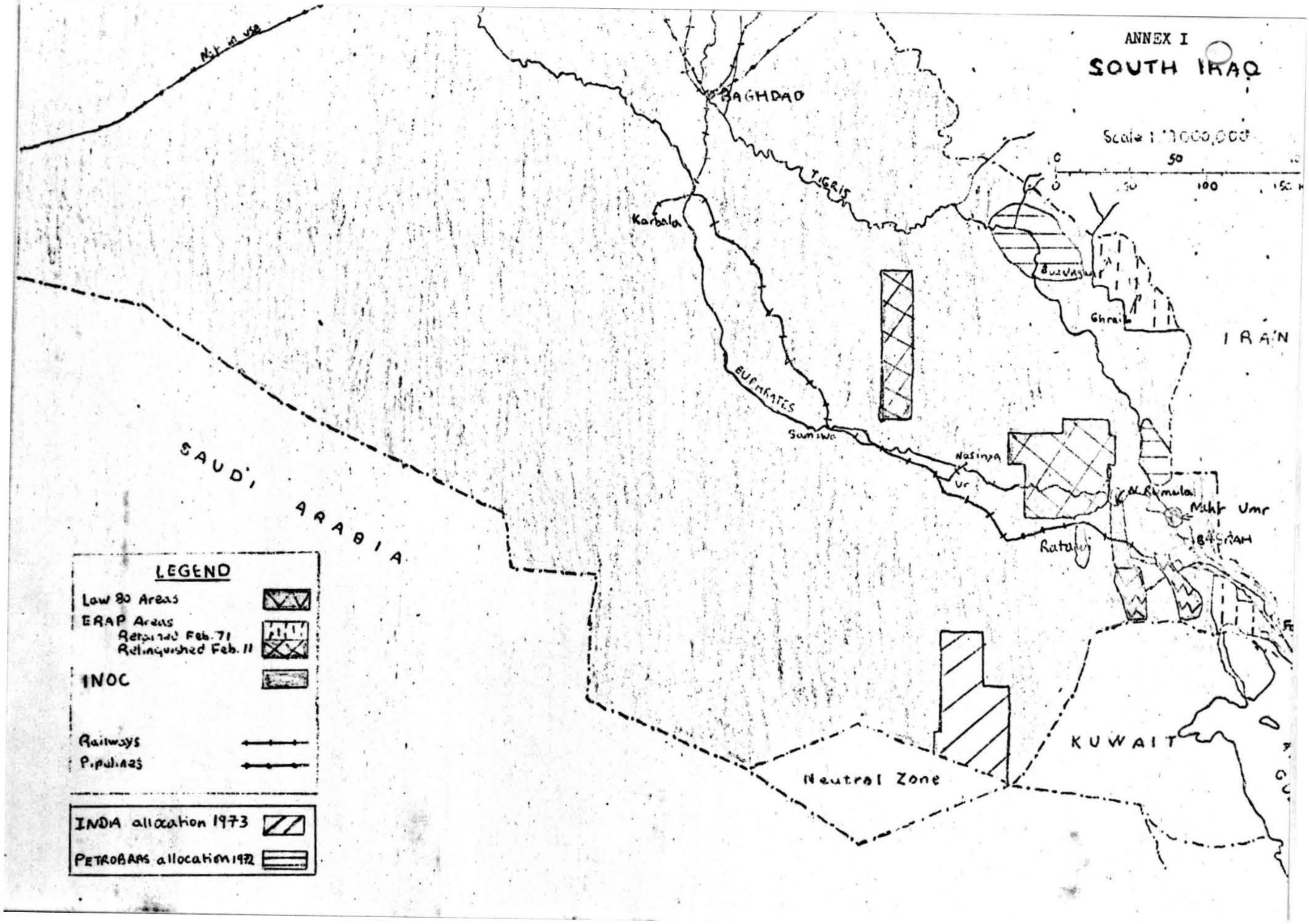
52 Now that a settlement with the IPC had been reached our main interest, apart from preserving the remaining British interests, lies in seeing the Iraqi oil potential brought to fruition. In the context of a probable oil shortage this would be highly desirable even in the perhaps unlikely event of no British companies being involved.

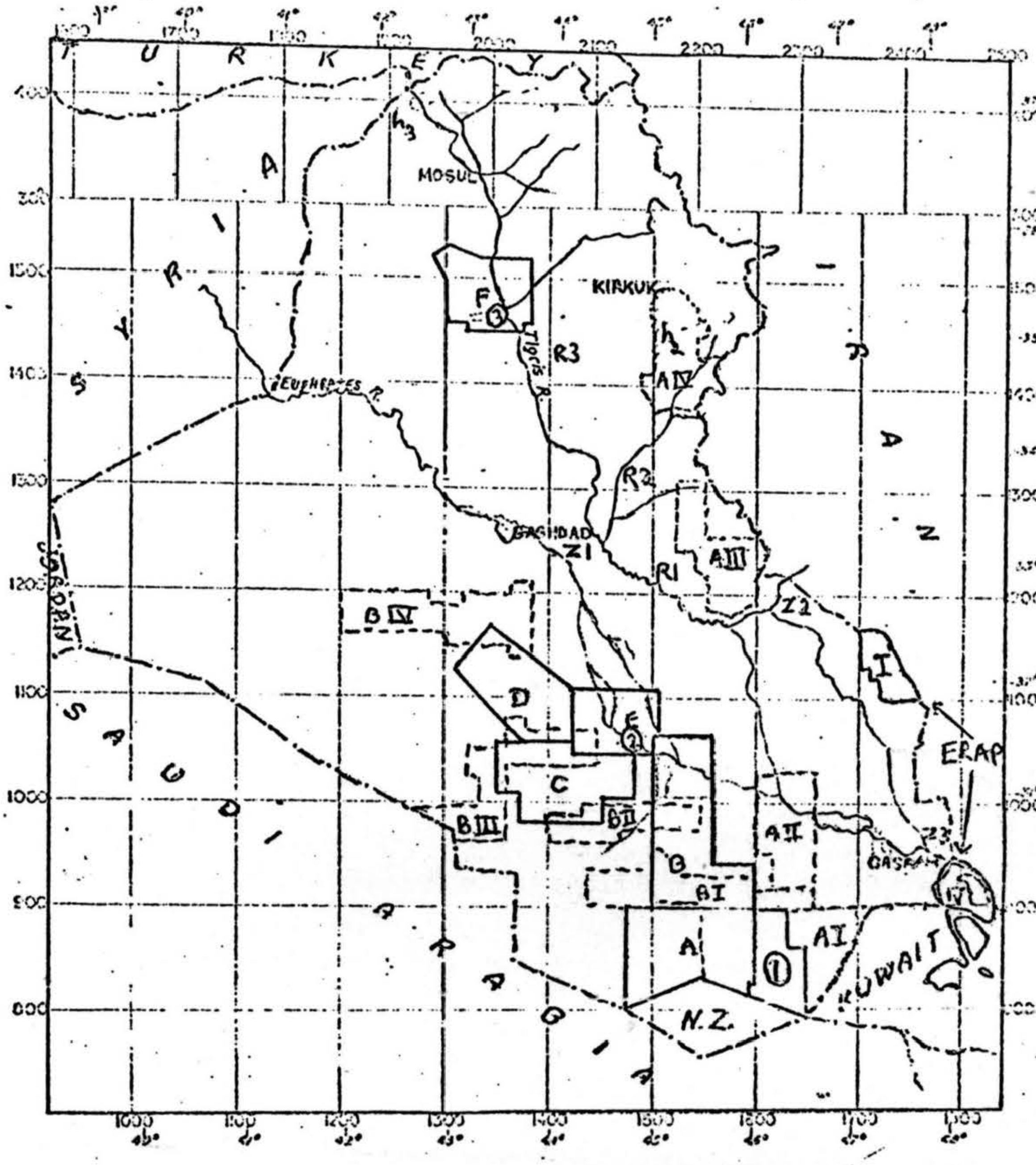

Black Sea
U.S.S.R.
Ankara
Turkey
Ozero Sevan
Caspian Sea
Keban Dam
Lake Van
Batman
Lake Urmia
Iran
Euphrates
Adana
Mersin
Aleppo
Mediterranean Sea
Euphrates Dam
Mosul
Lattakia
Banias
Tartus
Syria
Hims
Tudmur
Kirkuk
Jambour
Tripoli
Al Hadithah
Lebanon
Beirut
Damascus
Naft Khaneh
Baghdad
Tigris
Tel Aviv Yafo
Amman
Iraq
Jerusalem
Dead Sea
Israel
Jordan
Euphrates
See inset
N. Rumaila
Rumaila
Zubair
Al 'Aqabah
Kuwait
Neutral Zone
Saudi Arabia
Persian Gulf
oil pipeline
gas pipeline
projected pipelines
Refinery
Terminal
Red Sea
Manama
Qatar
Doha
100
200 Miles
200 Kilometers
Iran
Basra
Khorramshahr
Abadan
Iraq
Shatt al Arab
Umm Qasr
Fao
Kuwait
Khor al-Amaya
Miles



ANNEX I
NORTH IRAQ
Scale 1:3000,000
0
50
100 miles
0
50
100
150 km
Batman
T U R K E Y
LEGEND
Law 80 Areas
ERAP Area Retained Feb 71
Railways
Pipelines
AIN ZALAH
MOSUL
Erbil
KIRKUK
BAI HASSAN
KIRKUK
JAMBUR
S Y R I A
EUPHRATES
TIGRIS
I R A N
KERMANSHAH
NAFT-I-SHAH
NAFT KHANEH
BAGHDAD
Not in use
JORDAN

ANNEX I


SOUTH IRAQ
BAGHDAD
TIGRIS
Karbala
EUPHRATES
Samawa
Nasiriya
Ur
Basrah
Buzurgan
Ghraib
IRAN
Nahr Umr
SAUDI ARABIA
KUWAIT
Neutral Zone
LEGEND
Law 80 Areas
ERAP Areas
Relinquished Feb. 71
INOC
Railways
Pipelines
INDIA allocation 1973
PETROBRAS allocation 1972



A B C D E F	Areas offered 1973	ERAP retained areas I and onshore IV
1 2 3	" " 1972	India allocated area 1
BI, II, III, IV	" " 1970	Brazil allocated Z1, Z3, Z3 (not define
AI, II, III, IV	Areas in wrong map given to MEES	Rumania contracted R1, R2, R3 (not defined)
	18 February 1972, not otherwise explained	Bulgaria reported for area G
		Hungary drilling contracts h_1 h_2 h_3 (?

LOCATION OF AREAS IN IRAQ

This concession map was issued by the Iraq Government in September 1973. It shows concession areas offered for bidding in 1970 – 73 and those areas allocated to individual countries on those occasions. Some areas allocated to Eastern Bloc countries have not been confirmed. (see Para 10)

ANNEX II

DISPUTE BETWEEN THE IRAQ PETROLEUM COMPANY (IPC) AND THE IRAQ GOVERNMENT

IPC is one of a group of British registered companies and nearly half of the shares are owned by BP and Shell (23.75% each). Production from IPC groups in Iraq in 1971 amounted to 82.5 m tons, a 10% rise since 1970. The oil produced is of good quality and most of it is delivered by pipeline to Mediterranean terminals.

THE DISPUTE

Since the Qassim coup of 1958 IPC has faced growing problems. In 1961 Law 80 was passed, expropriating 99.5% of the IPC concession area, leaving the company with only its current producing territory. After the Arab-Israeli war in 1967 the Iraq Government passed Law 97 which gave INOC the former IPC territory including the large undeveloped field of N Rumaila. There were prolonged and unsuccessful negotiations between IPC and the Iraq government over the next five years. In 1968 IPC agreed to increase payments for oil delivered at the Mediterranean terminals, and in 1969 IPC reached agreement with the Basra port authorities on port and cargo dues. Soon after, however, Iraq signed two major agreements with the Soviet Union for the development of oil resources, including North Rumaila, where IPC had been obliged to relinquish its expensive oil equipment. Since then Iraq has diversified her commitments abroad in the manner of any other trading nation, despite the efforts of IPC to prevent the lifting of expropriated oil.

On 1 June 1972 Iraq passed Law 69 nationalising IPC, and Syria did the same. BPC and MPC, subsidiaries of IPC, were not affected by this; however, the nationalisation of IPC reduced the acreage of all three companies to 0.5% of the original concession area. This meant that apart from 1 m tons a year

from MPC in North Iraq, BPC's crude oil production of about 30 m tons a year was all that remained.

Before nationalisation, in May 1972, Iraq warned IPC that legislative action would be taken if the company did not increase production to maximum pipeline capacity and agree to the Government's demands put forward in earlier negotiations. This IPC could hardly do since increased charges at the terminals of Banias and Tripoli had made the crude oil uncompetitive in European markets. IPC attempted to negotiate with Iraq to bring down the royalties and tax payments on Mediterranean oil in return for increased production, but this was rejected. IPC then sent a delegation to make further proposals for a general agreement, offering to settle all government claims and royalties at once, to increase production and to buy oil from expropriated areas and to give technical assistance at terminals in South Iraq. Iraq rejected the proposals and nationalisation followed. A new company called the Iraq Company for Oil Operations (ICOO) was formed to operate the IPC oil fields.

The nationalisation of IPC affected the different member companies to a different extent as follows:-

Company	IPC production as a % of company's total worldwide crude oil availability	
	1971	March/April 1972
British Petroleum	7	5
Royal Dutch/Shell	4	3
CFP	17	14
Esso	2	1
Mobil	5	3

On 18 June, the Iraq and French Governments concluded an agreement which was designed to provide a long-term framework for supplies of Iraqi oil to France over 10 years. The main provisions of the agreement were as follows:-

(a) Iraq undertook to sell to CFP quantities of crude oil from the IPC fields, amounting to 23.75% of production (ie equivalent to CFP's shareholding interest in the IPC group) over a period of 10 years on the basis of the financial terms prevailing before the nationalisation, ie tax-paid cost. The 23.75% was more than Iraq had received before because of the disappearance of the BP royalty. At current production and export capacity of the IPC fields this would have been 280,000 b/d (14 millions tons a year).

(b) It was further proposed that CFP (being a substantial "overlifter" of IPC crude in the period immediately prior to the nationalisation) would, subject to negotiations, buy additional quantities of Kirkuk, Jambour and Bai Hassan crude over and above its basic entitlement ie 23.75%. Such quantities, however, would be purchased on "competitive commercial terms" rather than tax-paid cost.

(c) Some technical assistance by CFP to Iraq in connection with the operation of the nationalised fields was also envisaged.

(d) It was proposed that sales of French goods and services to Iraq for the implementation of development projects should be stepped up and to this end France would increase the availability of guaranteed private credits to Iraq.

IPC did not regard the agreement with CFP as a threat to its interests. It was satisfied with the interim agreement between compensation and further liftings and CFP agreed not to lift even its own share of oil until after 90 days mediation. The date passed, however, and mediation continued until on 1 March 1973 an agreement was reached. In this agreement IPC recognised Law 80 of 1961 (expropriation) and Law 69 of 1972 (nationalisation) as well as Law 229 of 1970, which imposed stricter controls on drilling and export procedures and which includes clauses that could undermine BPC's position in Iraq, if the government wished to do so.

The other main points of the agreement were as follows:-

1 The Iraq Government would deliver to IPC, free of charge fob East Mediterranean, 15 million tons of Kirkuk crude oil at a rate of 1 million tons a month (the first delivery being 1 March 1973) or at a faster rate if the Iraq Government chooses and the companies agree. According to the latest reports this is going ahead as planned. This crude oil will be delivered in final settlement of all claims of the companies on the Iraq Government. However, this has been reduced by 200,000 tons which was to have been payment for IPC's Lebanon pipeline section and export terminal but which have now been taken over by the Lebanese.

2 The companies would pay the Iraq Government £141 million in final settlement of all its claims on IPC and all liabilities of the IPC group to the Iraq Government. £30 m (the first payment) was made in the first week of March 1973 and the balance was paid monthly at the same proportionate rate as the oil deliveries in 1 above. The payment were subject to a 7% pa interest rate.

3 All operations and facilities of the Mosul Petroleum Company were taken over by the Iraq Government on 31 March 1973 without payment of compensation, but as the fields were no longer profitable, MPC felt this to be no great loss.

4 The Iraq Government would take over IPC's pipeline and terminal facilities in the Lebanon, subject to agreement by the Lebanese authorities (see below), by 31 December 1973. Payment for these facilities was included in the 15 million tons of Kirkuk crude oil deliveries to the companies outlined in 1 above.

5 Basrah Petroleum Company (the only one of the IPC group of three companies in Iraq to be retained by the IPC parent companies) would use its best endeavours to increase production from its fields in South Iraq from the 1972 level of 32.5 millions tons to:-

35 million tons in 1973
45 million tons in 1974
65 million tons in 1975
80 million tons in 1976

6 The outstanding £30 million of loans extended by the companies to the Iraq Government was to be repaid in three annual instalments on 1 July 1976, 1977 and 1978.

Although the agreement does not mention long-term crude supplies to the IPC parent companies, BPC has been attempting negotiations with Iraq on the application of participation back-dated to 1973, and Shell is negotiating a separate agreement to buy 4 m metric tons in 1974 and 12 m tons in 1975. Amongst the original IPC shareholders there is however a private sharing arrangement covering the remaining crude now available to any of them.

Since the settlement of the long-standing issues between the IPC group and Iraq estimated production and development figures for 1973 suggest that there will be a major expansion of the oil industry in Iraq. The role of the IPC partners in future developments has yet to be clarified. By 1976 Iraq will own a large proportion of the equity of BPC, under the terms of the Gulf participation formula alone, and the nationalisations of October 1973 point to full-scale Iraqi ownership in the near future.

In March 1973 Shell agreed to buy 4 m tons of Iraqi crude in 1974 and 12 m tons in 1975. A recent development (July 1973) is the Shell/CFP proposal for a European consortium to explore and develop oil fields in Iraq in return for assistance with large-scale economic projects.

IRAQ - AGREEMENT WITH LEBANON

Following the agreement between the IPC and Iraq the Lebanese Government nationalised IPC's pipeline, terminals and facilities within its country (including the 25,000 b/d refinery at Tripoli). It declared that the IPC agreement with Iraq for the nationalisation of its Iraqi operations consituted an abandonment of IPC's rights (as agreed in a 1931 convention) in the Lebanon. The Lebanese Government has so far maintained that it is not liable to pay IPC any compensation on the grounds that the 1931 convention stipulated that, if IPC abandoned its rights in the Lebanon after 1956, the facilities became the property of the state. Lebanon, which had earlier refused to nationalise the facilities, changed its policy following the IPC agreement with Iraq which provided for the facilities to be taken over by Iraq. Iraqi control of the pipeline was regarded as unacceptable. A new catalytic cracking unit was completed in the IPC refinery at Tripoli, at a cost of £10 m immediately prior to nationalisation. The IPC shareholders BP/Shell's main interest in this area is to recover this.

On 5 March 1973 the Lebanese Government subsequently signed an agreement with the Iraq Government covering the movement of Iraq oil through the facilities. Under the agreement Iraq will pay 11 cents a barrel of crude oil going through the pipeline and exported via the Tripoli terminal or delivered to the Tripoli refinery. This fee covers all port and terminal charges as well as pipeline operating and maintenance costs and compares with IPC's total estimated costs of 8 cents a barrel, of which payments to the Government were previously 6 cents a barrel. The fees to be paid by Iraq accordingly represent a significant increase in revenue to the Lebanese Government.

Iraq also agreed to deliver a maximum of 1.5 m tons pa (30,000 b/d) of crude oil at a price of $2.55/bbl m 1973, which is estimated to be the same as the price previously paid to IPC following the 1971 agreement.

Other provisions of the agreement include an Iraqi undertaking to maintain a 60/40 ratio in pipeline throughput to Banias (Syria) and Tripoli (Lebanon) respectively. This is in line with the maximum capacities of the two terminals - 700,000 b/d at Banias and 460,000 b/d at Tripoli. Payments are to be escalated in line with the dollar-gold parity (not to the Geneva mechanisms). The agreement is to run for 15 years, but transit dues and delivery prices are valid only until 1975.

If the Lebanon branch of the pipeline is run at its full capacity of 460,000 b/d (23 m tons pa) Lebanon should receive around $15 m pa in net revenues compared with $10 m pa previously.

The Lebanese branch of the pipeline has been in operation since the nationalisation of IPC in 1972.

IRAQ – SYRIA PIPELINE DISPUTE

When Iraq nationalised IPC's* production in North Iraq in June 1972, Syria nationalised IPC's pipeline. It then claimed 50% of the stocks at the Banias terminal as its right. Iraq and Syria reached a preliminary agreement in July 1972 over the financial terms to govern the transit of nationalised IPC crude across Syrian territory. However, the dispute flared up again in October.

<u>Syria</u> claimed that the nationalisation of the IPC pipeline system automatically entitled the Syrian government to double the transit payment it received before from IPC; ie $0.44/barrel instead of $0.22. (The Syrian agreement with IPC was a 50/50 sharing of the savings gained from the use of the Syrian pipeline and the terminal at Banias.) The Syrians demanded a minimum guaranteed revenue as well as a flat payment of £10 m per annum to cover operation and maintenance costs.

<u>Iraq</u> offered to guarantee Syria:

(i) the same transit payments per barrel as IPC had made and

(ii) a percentage of the profits gained through exporting from Banias.

Alternatively it offered to adopt any other payment system in practice in other countries.

Eventually an agreement was signed on 18 January 1973 which gave Syria:

(a) a 50% increase in transit dues

(b) a minimum throughput guarantee of 12 million tons/year

(c) together with assured payments of up to $13 million/year if operations were halted for any reason.

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* IPC shareholders have reached no settlement with Syria as yet.

The agreement is reported to last 15 years, although the level of payments agreed to is valid only until 1975. Although the new payments were lower than those Syria had demanded earlier, the agreement still left Iraq in a vulnerable position. Syria virtually has a stranglehold on Iraqi exports since it would be impracticable to send oil from the North through the southern terminals. In the event of another pipeline dispute between Iraq and Syria, 60% of Iraq's estimated crude exports (1973 figures) - ie all oil passing through Tripoli and Banias - would be affected. The Iraq-Turkey pipeline scheduled for completion in 1976 might relieve Iraq's dependence on Syria to some extent, but the Syria-Iraq transit payments come up for review in 1975. Also while the projected capacity of the Iraq-Turkey pipeline will be 25 million tons in 1977, the annual throughput of the Iraq-Syria pipeline for 1973, estimated by July figures, will be 61 million tons.

Syria's revenue from the transit of Iraqi oil through its territory was expected to reach about $150 m in 1973. However, the effects of the September Arab-Israeli war, with the bombing of the terminal at Banias have yet to be assessed.

ANNEX III

DETAILS OF INOC CONTRACTS WITH ERAP AND PETROBRAS

1 In February 1968 the French State Oil Company, ERAP, signed a service contract with INOC to explore for oil in three areas. ERAP was to bear all risks in return for the right to purchase at a preferential price 30% of production from any oil field development. Half of the oil discovered, beyond a certain point, was to be withdrawn from the contract and set aside as a national reserve.

2 Of the 30% entitlement, ERAP would be able to purchase 41% - 12.3% of total production - at a unit production cost which was defined to include royalty at 13½% and 59% - 17.7% of the total - at a price halfway between this production - plus royalty cost and the posted price.

3 Up to now ERAP has made three discoveries: Buzurgan, with several productive wells, and Abu Ghirab, both in the Amara district near the Iranian frontier, and Siba in the south in the Basrah area. However, development of these fields was held up by lack of agreement between ERAP and INOC over conditions.

4 At the time the contract was signed there was considerable speculation as to where the balance of advantage lay. ERAP had to advance all exploration and development expenditure although this was repayable if oil was discovered, in the case of exploration outlay within 15 years and in the case of development expenditure within five years. The company also had to pay non-amortizable bonuses, give up half of the reserves discovered, and market up to 200,000 b/d of INOC's share of crude - 100,000 b/d at Persian Gulf market prices less 0.5 cent a barrel and a further 100,000 b/d at a commission of 1.5 cents a barrel.

5 Against all this, it would have as a main source of profit the 12.3% of crude production which it would get at cost-plus-royalty or almost tax-free. Its profit from the 17.7% which it would buy at halfway price would depend on the relationship between posted and realised price, but being in effect a 50/50 profit split would yield little more to the company per barrel than under a normal concession - where it would have 100% of the crude itself.

6 However, negotiations between INOC and ERAP on a post Teheran revision of the 1968 service contract became deadlocked. The Iraqis demanded an improvement in the financial terms of the 1968 contract in the light of changed market conditions, following the 5 year oil agreements in 1971.

7 On 4 February 1971 INOC announced that the French group Elf/ERAP had relinquished about 65% (ie 7,000 sq kms) of the 10,800 sq kms acreage allotted to it under contract by INOC in February 1968. This was some 15% more than the group was required to surrender within three years of the effective date of the contract.

8 On 13 May 1973 the two sides finally signed an agreement to develop the oilfields at Buzurgan and Abu Ghirab with initial production forecast at 8 million tons a year. The main features of Elf/ERAP's future programme in Iraq under the new agreement will be:-

(1) As regards the development of Buzurgan and Abu Ghirab fields, Elf/ERAP will be responsible for all the production facilities at the fields plus the construction of a pipeline from the fields to the main tank farm at North Rumaila, a distance of about 170 kms. From there the oil will enter the projected new export system and deepwater terminal which is planned by INOC to handle future exports from North Rumaila and other fields in South Iraq.

(2) At the same time, Elf/ERAP is to carry out a complementary exploration programme in the Buzurgan/Abu Ghirab area near the Iranian border and in the region of Basrah. The company will carry out further seismic and exploration drilling work and in particular will probe the extensions of the structures in the Buzurgan/Abu Ghirab fields and investigate the technical problems posed by the Sibah structure where oil was discovered in 1969.

(3) Elf/ERAP also obtained INOC's approval for the assignment of 40% of its rights to a Japanese group comprising Sumitomo Petroleum Development Company, Mitsubishi Petroleum Development Company, Japan Petroleum Development Company, Japan Petroleum Exploration Company and Teikoku (Imperial) Oil Company. The group is to obtain 20-30% of oil and gas production from the 2 fields which will begin commercial production by 1976.

9 No details have yet been announced regarding the amendments to the financial terms of the 1968 contract under the new agreement. However, it is understood that the preferential "guaranteed sales price" at which Elf/ERAP is entitled to buy part of the crude oil produced has been revised to bring it more into line with post Teheran conditions. The requirement in the 1968 contract to the effect that 50% of the oil reserves discovered should be set aside as a "national reserve" has been dropped, and the discovered fields are to be produced as one unit.

10 On 6 August, 1972, the Iraq National Oil Company (INOC) concluded a service contract deal with the Brazilian state-owned national company Petroleo Brasileiro (Petrobras). Under the agreement Petrobras will carry out oil exploration and development operations in three areas in central and

southern Iraq, totalling 7,900 sq kms, acting as contractor to INOC. All three are exploration blocks where no oil has yet been discovered. Seismic surveys are now being carried out.

11 The deal appears to be modelled along the lines of the previous service contract concluded between INOC and Elf/ERAP in 1968 but with some substantial modifications largely in favour of INOC.

12 The following gives some comparison of the two contracts:-

Repayment of Loans by INOC to Contractor	Exploration loans in annual instalments over 15 years, interest free, or 10 cents/bbl whichever is greater; exploitation loans in 10 half-yearly instalments over 5 years at maximum 6% interest.	Exploration loans in annual instalments over 15 years, interest free; exploitation loans in 14 half-yearly instalments over 7 years at maximum 6% interest.

12 The fiscal terms of the new agreement have been brought up to date to reflect the post-Teheran price and tax situation. It was on this point that negotiations between INOC and ERAP broke down in November, 1971. At the time ERAP was reported to have agreed to raise the "tax" element in the 59% segment of its guaranteed sales from 50% to 55%, but to have declined to go any further, mainly on the grounds of the poor quality and high-sulphur content of the oil discovered.

	INOC/ERAP (1968)	INOC/PETROBRAS (1972)
Duration	6 years exploration 20 years exploitation.	7 years exploration and 20 years exploitation provided total period does not exceed 24 years.
Area9	10,800 sq kms.	7,900 sq kms.
Bonus	$15m upon commercial discovery payable over 10 years.	$15m upon commercial discovery payable over 10 years.
Minimum Exploration Expenditure	$12m in exploration period, with first well to be started within 9 months.	$12m in exploration period with first well to be drilled within 18 months.
Relinquishment	50% after 3 years; 25% after 5 years; proven areas only to be retained after 6th year.	50% after 3 years; 25% after 6 years; proven areas only to be retained after 7th year.
National Reserves	50% of discovered recoverable reserves to be set aside for "national reserves" for INOC.	No provision for "national reserves".
Guaranteed Sales	As remuneration for services, ERAP entitled to purchase 30% of crude production (excluding 50% national reserve) on following terms: 59% at (a) production cost, plus (b) 13.5% royalty on posted price plus (c) 50% of difference between sum of (a) plus (b) and the posted price; 41% at production cost plus 13.5% royalty on posted price.	As remuneration for services, Petrobras entitled to purchase between 16% and 21% of total output (there being no national reserve) depending on volume on following terms: 65% at (a) production cost, plus (b) 13.5% royalty on posted price, plus (c) 55% of difference between sum of (a) plus (b) and the posted price; 35% at (a) production cost, plus (b) 13.5% royalty on posted price, plus (c) 5% of difference between sum of (a) plus (b) and posted price.
Marketing	ERAP obliged to market up to 200,000 b/d of INOC's share at an agreed "international price" minus commission of 0.5 cents/bbl on first 100,000 b/d and 1.5 cents/bbl on second 100,000 b/d.	Petrobras obliged to market up to 300,000 b/d of INOC's share at an agreed "international market price" minus commission of 0.5 cents/bbl.

ANNEX IV

CRUDE OIL PRODUCTION IN IRAQ SINCE COMMENCEMENT

Year	Thousand barrels a day	Million tons a year	Annual % change in production
1928	2.7	0.1	-
1929	3.0	0.1	+ 11.1
1930	2.0	0.1	- 33.3
1931	2.0	0.1	-
1932	1.4	-	- 30.0
1933	1.6	-	+ 14.3
1934	16.5	0.8	+ 931.3
1935	78.1	3.9	+ 373.3
1936	85.7	4.3	+ 9.7
1937	92.4	4.6	+ 7.8
1938	91.5	4.6	- 1.0
1939	85.5	4.3	- 6.6
1940	55.9	2.8	- 34.6
1941	36.3	1.8	- 35.1
1942	55.7	2.8	+ 53.4
1943	79.3	4.0	+ 42.4
1944	92.5	4.6	+ 16.6
1945	100.1	5.0	+ 8.2
1946	101.8	5.1	+ 1.7
1947	103.0	5.2	+ 1.2
1948	76.6	3.8	- 25.6
1949	90.6	4.5	+ 18.3
1950	139.7	7.0	+ 54.2
1951	180.8	9.0	+ 29.4
1952	389.0	19.5	+ 115.2
1953	581.4	29.1	+ 49.5
1954	636.2	31.8	+ 9.4
1955	697.0	34.9	+ 9.6
1956	641.0	32.1	- 8.0
1957	449.5	22.5	- 29.9
1958	731.3	36.6	+ 62.7
1959	856.9	42.8	+ 17.2
1960	972.2	48.6	+ 13.5
1961	1,007.1	50.4	+ 3.6
1962	1,009.2	50.5	+ 0.2
1963	1,161.9	58.1	+ 15.1
1964	1,255.2	62.8	+ 8.0
1965	1,312.6	65.6	+ 4.6
1966	1,392.2	69.6	+ 6.1
1967	1,228.1	61.4	- 11.8
1968	1,503.3	75.2	+ 22.4
1969	1,521.2	76.1	+ 1.2
1970	1,548.6	77.4	+ 1.8
1971	1,706.6	85.3	+ 10.2
1972	1,451.8	72.6	- 14.9
1973	1,883.2	94.0	+ 48.8

TRADE AGREEMENTS ANNEX V

COUNTRY	AGREEMENT	DETAILS
Austria	May 1973	4 m tons Kirkuk crude in return for industrial equipment. Completion 1976. Value $100 m.
Brazil (Petrobras)	May 1971	$5 m Brazilian goods + services fob in return for crude oil of same fob value via INOC.
	December 1971	Long-term contract for 2 m tons Iraqi crude over 5 years from 1972.
Bulgaria (Technoexport)	29. 9.70	$14 m loan to Iraq with annual interest of 2.5% to be repaid in INOC crude over 10 years.
	28.12.70	$16 m loan to be repaid in Iraqi crude and industrial products from 72-80.
	12. 6.72	2 contracts for geophysical surveying in the N West and for drilling wells.
Ceylon	26. 1.70	INOC crude in return for 400,000 tons of tea from 1972-80.
China	21. 5.73	Iraq ratifies agreement to deduct the cost of agricultural projects from China's 14 m ID loan.
Czechoslovakia	4.12.69	Iraqi crude in exchange for the 70,000 b/d Basrah refinery and 'co-operation' on a Yugoslav-Czech-Hungary-Poland pipeline.
	March 1972	Iraqi crude to repay $50 m credit on industrial equipment. To be repaid in 8-10 years.
	August 1972	Volume of oil in 1973-5 will be 2.2 m tons from Kirkuk and N Rumaila.
East Germany	February 1972	Iraqi crude as partial repayment for loan of $84 m. Interest at 2.5% repayable over 12 years.
	November 1972	500,000 tons Kirkuk crude for equipment and services up to 1975.
Egypt	September 1972	2 m tons Kirkuk crude in return for Egyptian goods. Completion 1973.
France (CFP)	29. 6.73	CFP to act as consultant for Iraq's project to expand export capacity from the northern field by some 200,000 b/d to 1.4 m b/d. Overall cost estimated at $111.5 m.

ANNEX V

COUNTRY	AGREEMENT	DETAILS
Comptoir France - Belge des tubes		$44 m contract for expansion of Kirkuk Banias pipeline in Iraw and Syria.
Hungary	December 1969	$15 m credit to Iraq at 3% interest over 10 years.
(Chemokomplex)	21.10.69	N Rumaila drilling contract valued at $2.8 m.
	9.10.72	$50 m loan to Iraq. All outstanding loans to be repaid in crude oil. 70% of Iraq's trade balance to be covered in oil. Hungary to buy 70,000 tons crude in 1972.
India	24. 8.72 April 1973	Sulphur deliveries from Iraq and 112 m tons Iraqi crude over 12 years from 1976-76 in return for Indian industrial equipment.
Italy (Cosint Co)	8. 4.73	Iraq grants India $50 m in credits for purchase of crude.
	February 1970	1 m tons/year of Iraqi crude in exchange for a plant for Iraq's plastic and oil industry and Baghdad-Basrah pipelines. Value $90 m. Completion 1979.
Italy (Ente Nazionale Idrocarburi)	October 1973	£60 m contract to link N Rumaila with Mediterranean pipeline networks; completion 23 months from signature of contract.
(ENI)	9. 3.72	20 m tons of Iraqi crude in return for industrial projects. Completion 1982.
Lebanon	20. 5.73	Iraq to export 60,000 tons sulphur.
Poland (Centro Zap)	26. 4.69	Development of Mishraq sulphur deposits and operational and marketing assistance - Iraq will pay $3.5 as a patent fee for use of the Polish process.
(Polenski & Zolner)	1969	Construction of a Fertiliser Plant at Basrah for $6.2 m.
	August 1972	A $100 m development loan in exchange for Iraqi crude. Completion 1982.
	30. 6.73	Supplies of Iraqi crude up to 1980 in return for an industrial plant.
Rumania	28.10.71	$35 m loan with annual interest of 2.5% to be repaid in crude oil in 7 yearly instalments. (Drilling contracts?)

ANNEX V

COUNTRY	AGREEMENT	DETAILS
Spain	11. 2.73	6 m tons Iraqi crude from 1973-5 in return for Spanish industrial machinery and equipment.
Spain (COFEI)	1969	$50 m credit to Iraq including purchase of a plant for spiral welded piping. Value $5.5 in return for Iraqi crude.
Spain (CONI)	21. 1.70	Iraqi crude from 1972-9 in return for assistance to oil industry.
Turkey	21. 4.73	80,000 metric tons of naphtha and 8,000 tons of paraffin wax to be bought from Iraq by 1974.
UK (Shell)	March 1973	Shell to buy 4 m tons Iraqi crude in 1974 and 12 m tons in 1975.
USSR (Machino Export)	4. 6.69	12-year development loan of $70 m for N Rumaila and Ratawi to be repaid in crude oil from 1973 in 7 annual instalments.
	21. 6.69	Equipment and technical assistance in the Al-Halfayah and other INOC areas valued at $72 m. Iraq to repay 10% one month, 15% by letters of credit and 75% spread over 5 years. 3% interest rates to be repaid in crude.
	6.12.69	3 contracts for oil development in S Iraq.
(Technoexport)	27. 4.71	2 contracts for design and engineering studies for developing production of Narh Umr and N Rumaila. Iraq to make all Soviet purchases in crude up to 1980.
Yugoslavia (Energoinvest)	19. 9.72	500,000 tons Kirkuk crude a year in return for corn and industrial equipment from October 1972.
IBRD		International Bank for Reconstruction and Development to loan $40 m to help finance a $90 m grain storage project.

ANNEX VI

IRAQ'S CRUDE OIL EXPORTS 1965-72
Thousand Barrels per day

Destination	1972	1971	1970	1969	1968	1967	1966	1965
NORTH AMERICAL	20.5	38.8	24.1	15.5	2.7	12.8	48.7	33.2
of which:								
USA	5.8	38.8	24.1	15.5	2.7	6.0	37.7	22.6
Canada	14.7	-	-	-	-	6.8	11.0	10.6
LATIN AMERICA	70.5	64.2	70.2	67.5	56.2	37.3	52.0	56.1
of which:								
Argentina	-	-	-	-	0.7	-	12.4	18.0
Brazil	90.4	59.1	65.5	63.6	60.8	35.1	38.4	33.2
WESTERN EUROPE	857.7	1191.7	1201.2	1198.0	1195.5	916.5	962.9	943.4
of which:								
Belgium	16.8	28.9	19.5	27.9	66.8	40.9	36.6	24.7
France	276.6	328.7	237.7	307.5	324.5	297.9	214.0	207.6
Western Germany	24.7	53.9	56.4	43.9	51.8	34.2	71.2	97.6
Italy	271.8	369.7	455.2	373.4	363.7	205.8	171.0	170.8
Netherlands	18.6	95.9	105.1	148.6	104.8	96.7	109.1	104.6
Portugal	35.4	36.5	43.7	31.1	27.3	20.6	25.0	25.4
Spain	47.1	41.2	54.8	40.8	64.4	70.3	50.1	40.6
Turkey	32.4	47.3	57.1	41.4	41.4	35.1	20.9	19.4
United Kingdom	65.4	76.0	51.4	66.5	64.0	63.6	205.0	209.1
EASTERN EUROPE	74.4	56.9	6.6	-	-	-	-	-
of which:								
Bulgaria	47.4	1.9	-	-	-	-	-	-
Romania	1.3	11.1	6.6	-	-	-	-	-
Yugoslavia	10.1	43.9	-	-	-	-	-	-
MIDDLE EAST	14.5	28.3	66.7	55.0	42.3	48.5	51.6	20.1
of which:								
Southern Yemen	-	17.8	9.2	6.0	-	6.1	12.5	-
Lebanon	-	1.0	32.0	22.0	20.7	20.7	17.2	15.2
AFRICA	86.3	83.0	70.1	62.5	60.1	52.4	41.6	50.0
of which:								
South Africa	55.8	42.1	46.2	39.9	38.9	36.1	21.8	22.1
ASIA AND FAR EAST	53.2	13.9	4.3	25.3	40.2	78.8	135.4	112.9
of which:								
Japan	5.8	2.8	-	4.3	28.4	56.5	94.6	93.8
Philippines	32.8	7.0	-	-	-	9.4	18.1	14.7
OCEANIA	35.9	41.3	28.0	21.6	23.2	25.3	27.3	23.1
of which:								
Australia	35.9	41.3	28.0	21.6	23.2	25.3	27.3	23.1
UNSPECIFIED	-	-	-	-	-	0.5	-	14.1
TOTAL	1213.0	1518.1	1471.2	1445.4	1429.2	1172.1	1319.5	1252.9

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IRAQ EXPORTS OF OIL PRODUCTS - 1970

DESTINATION	PRODUCT							
	GAS OIL Gallons	ASPHALT Tons	LUBRICATING OIL Tons	HEAVY FUEL OIL Gallons	NAPTHA Gallons	WAXES Tons	KEROSINE Tons	PARAFFIN WAX Tons
SYRIA	13,694,873	159,106	4,744,434					
TURKEY				4,446,000	3,259,000			
JORDAN		253,130	1,012,040			65,200		
KUWAIT		6,536,190						
UAR		26,963,749						
SUDAN		5,931,142					90,719	
LEBANON								99,990
ITALY								25,001
CEYLON		1,800,014						
SOUTH YEMEN		54,432						
GREECE								
YUGOSLAVIA								599,994
BUNKERING	337,908			8,708,335				
TOTAL	14,032,781	41,697,783	5,756,474	13,154,335	3,259,950	65,200	90,719	724,985

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ANNEX VI

1972

IRAQ TOTAL PRODUCTION	-	71,977,266
Iraq National Oil Co	-	22,817,719
Iraq Petroleum Group*	-	16,610,385
	%	
BP	23.75	3,944,966
Royal Dutch/Shell	23.75	3,944,966
CFP	23.75	3,944,966
Mobil	11.875	1,972,484
Exxon	11.875	1,972,484
Participations and Exploration Corp	5.0	830,519

*Production to 30.4.1972. Company Nationalised from 1.5.1972.

Basrah Petroleum Co Ltd	-	32,549,162
	%	
BP	23.75	7,730,426
Royal Dutch/Shell	23.75	7,730,426
CFP	23.75	7,730,426
Mobil	11.875	3,865,213
Exxon	11.875	3,865,213
Participation and Exploration Corpn	5	1,627,458

IRAQ TOTAL PRODUCTION 1973	-	97 m tons/year (WEP)
PIW Jan-Aug figures	-	96.1 "

ANNEX VIII

REVENUES

Iraq's revenues from oil since 1931 is as follows:-

Year	Receipts Millions ID	Receipts Millions US Dollars
1931	0.4	1.1
1932	0.6	1.7
1933	0.7	2.0
1934	0.8	2.2
1935	0.9	2.5
1936	1.2	3.4
1937	1.2	3.4
1938	1.9	5.3
1939	2.2	6.2
1940	1.8	5.0
1941	1.6	4.5
1942	1.7	4.8
1943	2.1	5.9
1944	2.4	6.7
1945	2.6	7.3
1946	2.7	7.6
1947	2.7	7.6
1948	2.1	5.9
1949	3.1	8.7
1950	6.7	18.7
1951	15.1	42.3
1952	33.1	92.7
1953	51.3	143.7
1954	57.7	161.6

ANNEX VIII(Contd)

Year	Receipts Million ID	Receipts Millions US Dollars
1955	73.7	206.4
1956	68.9	192.9
1957	48.9	136.9
1958	79.9	223.7
1959	86.6	242.5
1960	95.1	266.3
1961	94.8	265.5
1962	95.1	266.3
1963	110.0	308.0
1964	126.1	353.1
1965	131.4	368.0
1966	140.8	394.3
1967	131.7	368.8
1968	203.3[a]	569.3
1969	199.6	558.9
1970	213.6	598.2
1971	300.0	840.1
1972	285.7	800.0

(a) Including additional payment of 7 US Cents per barrel over the period June-December 1967.

1 US Dollar = 0.3571 Dinars

ANNEX IX

MAJOR OIL PIPELINES IN IRAQ

	OWNER	LENGTH IN MILES	DIAMETER INCHES
Rumaila-Zubair Fields/Fao	Basrah Petroleum Co	(65 (65	24 30/32
Fao/Khor Al Amaya (Offshore Submarine)	Basrah Petroleum Co	28	32
Naft Khaneh/Daura	Iraq National Oil Co	81	12
Baiji/Daura	Iraq National Oil Co	197	12
Kirkuk/Tripoli (Lebanon)	ICOO	532	12
Kirkuk/Tripoli (Lebanon)	ICOO	532	30/32
T4PS/Tripoli (Lebanon)	ICOO/Lebanese Government	111	16
Kirkuk/Banias (Syria)	ICOO/Syrian Government	555	30/32
Jambur Field/Kirkuk	ICOO	36	6/8
Bai Hassan Field/Kirkuk	ICOO	20	16
Burmah and Ain Zalah Fields/K2PS	ICOO	134	12
K2PS/Baghdad	ICOO	110	12

ANNEX X

MAJOR GAS PIPELINES IN IRAQ

	OWNER	LENGTH IN MILES	DIAMETER INCHES
Rumaila/Basrah	Iraq National Oil Co	17	18
Kirkuk/Taji	Iraq National Oil Co	186	16
Rumaila) Zubair) Fao Terminal	Basrah Petroleum Co	65	12/16
Kirkuk/T4PS	ICOO	422	16
Jambur/Kirkuk	ICOO	36	20
Bai Hassan/Kirkuk	ICOO	20	12

IRAQ OIL FIELDS

M	<u>NORTH</u>		
E			
D	KIRKUK		
I			
T			
E	JAMBOUR		FORMERLY IPC NOW ICOO
R		EXPORT BLEND	
R			
A	BAI HASSAN		
N			
E			
A			
N	AIN ZALAH	–	FORMERLY MPC NOW ICOO
G	<u>SOUTH</u>		
U	ZUBAIR		
			BPC EXPORT BLEND
L	S. RUMAILA		
F	N. RUMAILA	–	FORMERLY BPC NOW INOC

B PRODUCTION

(a) OIL

12 The economy of Iraq is largely dependent upon the export of oil, and therefore upon the main oil companies INOC, ICOO and BPC; and in 1972 oil represented 94% of Iraq's exports. The economic expansion which has come as a direct result of the 1973 agreement with the oil companies is expected to raise the country's oil income to at least ID 500m a year in 1976 compared with ID 230m in 1971 and substantially less in 1972. This income however would hardly cover the projected cost of imports for 1973. Iraq has a developed national economy separate from oil production and in 1969, when the oil income stood at ID 183m, the Gross Domestic Product was ID 1,121m. However, though oil accounts for almost 38% of the domestic product it only provides 7% employment, while agriculture, which uses 34% of the labour force accounts for only 22% of the Gross Domestic Product. The dependence on oil induced a lethargy which hindered fast growth in the past, (Iraq's growth rate per head 1960-70 was 2.3 as compared with 5.4 for Iran and 3.4 for Syria) but since the March settlement Iraq has decided to increase its current import programme by 14% for 1973.

The growing trend away from barter trade which was the basis of most exchanges with the Eastern Bloc, since the settlement, means that the expanding Iraqi economy is bound to look to the West, and even in 1972 Iraq's imports from Eastern Europe represented less than a quarter of the country's supplies.

1973 has seen an increase in allocation for development and a higher rate of project implementation. From 1962-72 expenditure on the development plan has been 40%. It has now risen to over 60% and an implemental rate of 80% is promised.

OIL COMPANIES HISTORY

Before 1914	The two groups in Iraq before the 1914 TPC	
Turkish Petroleum Company Ltd = (Original)	Anglo-Saxon Petroleum Company	25%
	Deutsche Bank	25%
	National Bank of Turkey (British supported + Gulbenkian)	35%
	Gulbenkian	15%
Anglo-Persian Oil Company	- Burmah Oil a major shareholder	

1914 TPC	Turkish Petroleum Company
47.5%	- Anglo-Persian (BP) and National Bank of Turkey
25%	- Deutsche
22.5%	- Anglo-Saxon Petroleum Company (Shell)
5%	- Gulbenkian

After 1914-18 the Deutsche Bank share went to CFP.

US companies formed NEDC and pressed for share in TPC.

IPC STRUCTURE

After the 1914-18 war a concession was granted to the Turkish Petroleum Company. Its name was changed to the Iraq Petroleum Company (IPC) in 1929. The ownership became:

BP		23.75%
Shell		23.75%
CFP		23.75%
Near East Development Corporation	(i)	23.75%
Participations and Explorations Corporation	(ii)	5%

(i) The Near East Development Corporation is jointly owned by Standard Oil New Jersey (ESSO) and Mobil Oil, both of whom therefore have an effective 11.875% participation in IPC.

(ii) The remaining 5% was held by Gulbenkian, and on his death, passed to his estate, which is represented by Participation and Exploration Corporation (Partex).

The shareholdings of the Mosul Petroleum Company and Basrah Petroleum Company are the same as that of IPC.

The shareholdings of Shell are registered in Bermuda.

ANNEX XII

1928.	31 July	Red Line Agreement signed.
1929	TPC renamed IPC	
1932	British Oil Development Company Ltd. granted concession.	
1938	BPC, affiliate of IPC, granted concession.	
1941	MPC formed from original British Oil Development Company.	
1958	14 July	- Qassim coup
1961	Iraq reclaims 99.5% of IPC concessions. Law 80.	
1964	Iraq government forms INOC	
1967	Expropriated IPC territory allocated to INOC. Law 97	
1970	Law 229	
1972	1 June	IPC nationalised Law 69
	MPC concession relinquished BPC still in production ICOO formed to manage IPC production	
1973	28 February	Agreement between IPC group and Iraq
	13 May	ERAP signs contract to develop Buzurgam and Abu Ghirab.
	7 October	Exxon and Mobil nationalised. Law 70
	21 October	Dutch interest in BPL nationalised. Law 90

SOME SOURCES USED IN THE REVISION OF THE BRIEF (UP TO NOVEMBER 1973)

PARAGRAPH

Summary:

3	MEED 7 September 1973
4	Summary of Petroleum and Selected Mining Statistics 1973
5	Oil and Gas Journal 25 December 1972
6	Arab Oil and Gas 1 November 1973
7	DTI Estimate of OPEC oil revenues October 1973 (PARTLY)

1-2	'Oil, The Biggest Business' - C Tughendat
	'Middle East Oil' - George W Stocking
	'The Economics of Middle Eastern Oil' - C Issawi and M Yeganeh
	SHELL: Middle East Oil Concession Map
	'Our Industry, Petroleum' - BP
	See Iraq File for structure of IPC (diagram)
3	Petroleum Economics Ltd. Oil Industry Developments 1970-72
4-5	Arab Oil and Gas 16 October 1973 1 November 1973
	See Iraq File for PBC company production sheet for Jan-Sept 73 figures
9	INOC and INDIA service contract. See Iraq File Sept 1973
10	'IRAQI DEVELOPMENT PROGRESS ' - 'ECS/73/1' - IRAQ FILE Sept 1973
11	IRAQ/SHELL CONSORTIUM FILE
	Ownership of Iraq oil fields - BP
12	MEED 7 September 1973
20	MEES 31 August 1973
22	MEES 6 July 1973
	Trade contracts 1970-72 - Iraq file (supplied by BP)
29, 31	Arab Oil and Gas 1 November 1973 or
	PIW 5 November 1973
48 a-f	Secret Paper on Iraq May 1973
f	Economist 3-9 November 1973

ANNEX II

IPC Agreement	Petroleum Economics Ltd	May-June 1972
Agreement with Lebanon (Pipeline details)	" " " " " "	May-June 1972 March-April 1973
Syria Pipeline Dispute	" " "	May-June 1972 Jan-Feb 1973
TRADE AGREEMENTS	Trade agreement details from BP in Iraq File	
Concessions in Iraq	Commercial Map. See Iraq file obtained from IPC via BP	September 1973
1972 Total Oil Production (breakdown)	Petroleum Times	27 July 1973

Future Revision

For details of the early oil companies' history an authoratitive book is:

KUWAIT - PROSPECT AND REALITY by Zahra Freeth and Victor Winstone (1972)

(Chapters 6 onwards) - obtainable from the Energy Library

Extract : Middle East Economic Digest, Vol 17:46 of 16 November 1973.

NBR 12/7.

NEW MEASURES TO PROMOTE AGRICULTURE

Grants and long-term loans are to be provided by the Government for private businessmen undertaking projects that will help in the creation of a strong infrastructure for agriculture. The new measures, contained in the country's first two-year budget, include the provision of loans for the construction of irrigation networks, packing and grading plants, setting up co-operative and other marketing facilities and land reclamation.

The loans are to be for 15 years with interest rates varying according to the region and the particular form of the project. Interest rates in under-developed areas will be four per cent a year and in less depressed areas six per cent a year. For projects such as irrigation networks the Government is prepared to meet up to 85 per cent of the costs in grants. Packing facilities for export items such as dates will receive both loans and grants. The Government is prepared to issue grants covering the entire cost of such projects in Sistan and Baluchistan. Finance will also be made available for activities not directly concerned with farming, such as cottage industries and the establishment of industrial ventures by farming corporations close to the actual farms.

The new proposals are to be included in a package programme for the development of agriculture through the private sector. This will adopt long-term targets of up to 10 years, although finance will be allocated on a two-year basis. The Government is to supervise the use of the loans and grants to ensure their application to the specified projects. Ultimate responsibility for this programme lies with Ministry of Agriculture & Natural Resources, but the preparation and implementation of projects is to be co-ordinated with the Ministries of Economy and Co-operatives & Rural Affairs.

TWO AGRO-INDUSTRIAL PROJECTS SET UP

Two agro-industrial projects have been launched in Khuzestan by the Agricultural Development Fund of Iran and the **Industrial & Mining Development Bank of Iran.** The first project involves the investment of IR 24,000 million in the cultivation of 31,000 hectares of land that will be irrigated by the Mohammed Reza Shah dam, which is intended to produce 250,000 tons of sugar cane a year. The cane will be processed into white sugar, and bagasse from the refinery will be delivered to a paper mill, which will produce 200,000 tons of white glossy paper a year. The second project involves similar plans for sugar and paper production, but final details are still being sorted out. The private sector, led by the IMDBI, holds 40 per cent in both projects and the balance is held by the Agricultural Fund.

Improved seed deal concluded

The Ministry of Agriculture & Natural Resources has reached a five-year agreement with an unspecified private firm for the purchase of improved seeds, which will be supplied to farmers in Gorgan, Dasht and Mazandaran. Some IR 70 million has been set aside for the project, of which the Agricultural Development Fund of Iran is providing 50 per cent and the company the remainder. The agreement provides for the purchase by the Government of 10,000 tons of improved seed in the first year of the agreement rising to 15,000 tons for the remaining four years.

U.S. FIRM PARTICIPATES IN REFRACTORY PLANT

A new refractory plant is to be established in Isfahan to supply a wide range of requirements in the steel, glass, cement, sugar and metal industries. The participants in the project include on the Iranian side the **Industrial Credit Bank**, the Industrial Renovation & Development Organisation and a group of private investors, and from the United States **Harbison Walker Refractories Division**, an affiliate of Dresser Industries.

IN BRIEF

A dam and hydro-electricity plant are to be built in a joint venture with the Soviet Union on the river Aras, on the frontier between Iran and the USSR. Present plans envisage the construction of a 70-metre dam and a reservoir which will provide irrigation for 250,000 acres of land in Soviet Azerbaijan and Iran.

Five tourist complexes are to be created by the Iran National Tourist Organisation in an area between Bandar Pahlavi and Astara, west of the Caspian Sea.

Car assembly and production by **Iran-General Motors** is expected to start early in 1974, according to a General Motors spokesman, who said the company hoped to have its first cars on the street by 15 January. The joint venture is being financed by General Motors (45 per cent) Jaafar Akhavan (45 per cent) and the Pahlavi Foundation (10 per cent).

Sudan's Foreign Minister, Mansour Khalid, paid a visit to Iran on 10-13 November, during which he had talks with Prime Minister Amir-Abbas Hoveyda and other senior officials.

Iraq

"1974-79 PLAN EXPENDITURE $ 7,500 MILLION"

The 1974-79 development plan will involve the expenditure of more than $ 1,500 million a year according to Baghdad press reports. The current five-year plan will be completed on 31 March next year and the estimate for the 1974-79 plan for both private and public investment was attributed to official sources although no official figures have been released yet. Iraq, which normally allocates half its oil income to development, was estimated to have received $ 1,100 million in payments from oil last year. Before the outbreak of the Middle East war in October, this total was expected to increase by at least 50 per cent this year and at faster rates in coming years, and Iraq has during the past two months awarded contracts worth more than $ 800 million for the development of oil export facilities (MEED 9:11:73) which will help to bring about this high rate of increase in revenue.

According to the Baghdad reports on the new plan the highest priority will be given to the further development of the country's oil resources, including the intensive exploitation of crude oil reserves, the expansion of refining capacity and the setting up of a developed petrochemical industry. Further emphasis will be placed on other large-scale schemes, including power, aluminium smelting and irrigation & construction projects. The reports also say that the role of the private sector will be well defined in the plan and opportunities for its expansion will be offered in medium and small-size manufacturing industry, the services, agriculture and housing. They also say that the implementation rate, which has rarely exceeded 60 per cent in the past, will be greatly improved with the improvement in the planning apparatus and as a result of decentralisation and increased flexibility.

BROWN & ROOT CONTRACT TO BE HONOURED

In a report meant to dismiss foreign reports that Iraq might repudiate contracts signed with US firms, Iraqi officials have said that experts from the companies which are to build and equip the deepwater oil terminal near Fao are already in Iraq. **Brown & Root** of the US won an ID 36 million contract to build the offshore installations (MEED 28:9:73) and **Mannesmann** of West Germany won the ID 55 million contract for the land facilities. The total cost of the project, which will allow the loading of 80 million tons a year of state-produced oil by 1975, has been put at ID 101 million and experts from the firms setting up the facilities are now surveying the site.

SELECTIVE OIL CUTS FAVOURED

Iraq has announced that it prefers selective cuts in oil exports to nations antagonistic to the Arabs to the general oil production cutback decided by the Organisation of Arab Petroleum Exporting Countries (OAPEC). Iraq did not support the original OAPEC decision to cut oil production by five per cent a month until a Middle East settlement is reached and it is reported to have been reluctant to endorse the OAPEC decision on 5 November to cut back production immediately by 25 per cent and by a further five per cent in December. It has now issued a document outlining its views, which are summarised as follows:

"1 – The interests of the imperialist states which persist in supporting Israeli aggression should be nationalised. . . .This is because nationalisation gives us the flexibility necessary to ensure the needs of our friends and deny our oil to our enemies.
2 – Oil supplies should be totally denied to countries assuming a hostile attitude.
3 – The oil consumption requirements of states showing understanding for the Arab cause or adopting a neutral stand should be supplied.
4 – Arab reserve funds deposited in states which have supported the aggression should be withdrawn and used in the development of Arab and African states."

The statement said that Iraq did not see oil marketing as a purely commercial activity and that Iraq by supplying oil to consumers did not aim purely for profit. "We look forward to making oil an effective factor in developing our political and economic relations. . . .Any improvement or tendency on the part of a consuming country in favour of our national cause is bound to strengthen and help to promote oil relations. . . .We will supply our oil to such countries without regard to their economic or political ideologies or alignments."

The statement accused the United States of trying to take over control of energy sources in its efforts to regain its economic dominance of the world and said that the Arabs should "differentiate between friends, enemies and those who are neutral. The chief goal of using the oil weapon should be to win more friends and to punish enemies. Therefore those countries which do not revolve in the orbit of the American-Zionist policy should be treated differently. . . .It is not in the interest of the Arabs to treat friends and neutrals in the same way as we treat enemies. . . .We ought to maintain joint economic interests with them and endeavour not only to preserve but to constantly strengthen and develop such relations in a manner conducive to promoting world prosperity."

IN BRIEF

The Minister of Oil & Minerals, Saadoun Hamadi, has had separate talks in Baghdad with representatives of Elf-ERAP of France and ENI of Italy on relations between the companies and the Government.

The Directorate-General of Sewage is to start work shortly on the ID 10 million Karkh sewage scheme in Baghdad, which includes the construction of a treatment plant.

The United Nations Development Programme (UNDP) has signed a contract under which it will contribute $ 493,200 to the cost of setting up a telecommunications training centre which will also receive Iraqi Government funds of ID 618,420. This will go towards the second stage of setting up the centre. The first stage was completed at a cost of ID 260,000.

A Communist Party newspaper has accused the Kurdish Democratic Party (KDP) of launching a campaign of physical liquidation against Communists in Kurdish areas. The two parties have been in disagreement over relations with the Government since the Communists joined a National Front dominated by the ruling Baath Party. The KDP has refused to join so far.

Jordan

ECONOMIC MINISTERS REPLACED

The Ministers of Economy and Finance in Premier Zaid al-Rifai's Government were replaced in a major reshuffle on 10 November which affected seven of the 19 portfolios. The Minister of Economy, Kamel Abu Jaber, the Minister of Finance, Mohammed Nouri Shafiq, and the Minister of Waqfs, Ishaq al-Farhan, left the Government. The Minister of State for Premiership Affairs, Zouqah al-Hindawi, was appointed Minister of Finance. The Minister of Culture & Information, Marwan Dudin, replaced Hindawi as Minister of State for Premiership Affairs and he was replaced at the Ministry of Culture & Information by Adnan Abu Awda, who was until then Chief of the Royal Court. The Minister of Agriculture, Omar al-Nabulsi, was moved to the Ministry of Economy and was replaced at the Ministry of Agriculture by Marwan al-Humud. Humud's post as Minister of Interior for Municipal & Rural Affairs was filled by Fuad Qaqish, a newcomer. Abu Awda's post as Chief of the Royal Court was entrusted to Bahjat al-Talhouni, a former Prime Minister and member of the House of Notables. His seat in the House of Notables was given to Mohammed Khalil Abdel-Dayem.

The reshuffle was believed to be aimed at strengthening the position of Premier Rifai in directing economic affairs and is the second since Rifai formed his Government in May (MEED 30:8:73).

AQABA REOPENED TO SHIPPING

The port of Aqaba, which was closed to shipping soon after the outbreak of the war on 6 October for fear of damage to shipping, has been reopened and conditions are normal. During the stoppage Aqaba-bound ships were diverted to Jeddah in Saudi Arabia and to Kuwait.

Daily flights between Beirut and Amman by Middle East Airlines and the Royal Jordanian Airline, Alia, were resumed by 12 November. Alia had resumed flights on other routes earlier (MEED 2:11:73).

Hussain on tour

King Hussain visited the rulers of Oman, Bahrain and Qatar during a lightning tour of the Gulf on 11 November. The tour was aimed at informing the rulers of the latest development in the Middle East diplomatic efforts in the light of the visit to Amman of the United States Secretary of State, Henry Kissinger, on 8 November and the King's visits to Saudi Arabia, the United Arab Emirates, Kuwait and Syria on 6-7 November.

"J.D. 10 MILLION IN U.S. SUPPORT"

An agreement fixing US financial assistance to Jordan for 1973 at JD 10 million (about $ 30 million) was signed in Amman on 11 November, according to *Agence France Presse*. The unconfirmed report conflicts with earlier indications that Jordan was to receive $ 65 million in US budgetary support this year and another $ 39 million in military assistance (MEED 17:8:73). The report was wrong on another point. It said that US financial assistance to Jordan totalled JD 21.5 million during the past three years whereas official Jordanian figures show budgetary support in 1971-72 at over JD 34 million (see MEED 15:6:73, page 698).

NBR 12/7.

Extract

Mongolia's Prime Minister, Yumgaagiyn Tsedenbal, is to visit Iran from 24 to 29 November.

Minister of Economy Hushang Ansary was in Islamabad from 15-17 November leading a major trade delegation at the third meeting of the joint Irano-Pakistani Ministerial Committee for talks on the expansion of trade between the two countries.

Britain's Ambassador-designate to Iran is the Under-Secretary of State for Near Eastern Affairs, Anthony Parsons.

The new Deputy Representative of the Consortium in Tehran is to be B.T. William, at present Manager of the Production Department of Esso Middle East. He is expected to take up his appointment on about 1 January 1974.

Iraq

OIL PRODUCTION LEVELS MAINTAINED

Iraq appears to be trying as far as possible to maintain the levels of oil production prevalent before the latest Middle East war in spite of the decision of the Organisation of Arab Petroleum Exporting Countries (OAPEC) to cut back production by 25 per cent this month compared with September and by a further five per cent in December (but see REGIONAL DEVELOPMENTS). Iraq had earlier this month expressed its preference for selective oil cuts which would affect only states antagonistic to the Arabs (MEED 16:11:73) and Beirut and Algiers reports have suggested that Iraq is increasing its oil production and sales instead of decreasing them.

Iraqi oil production in September was 786,000 barrels a day from the oilfields of the **Basrah Petroleum Company** (BPC), about 1.2 million barrels a day from the northern oilfields and about 90,000 barrels a day from the North Rumaila oilfield, bringing total production to about 2.1 million barrels a day. Oil industry sources are certain that BPC production has not fallen since September and has probably increased. Production from the northern fields fell drastically soon after 6 October when the war brought loading at the Mediterranean terminals to a halt. The Tripoli terminal in Lebanon, which handles up to 450,000 barrels a day, is now working at full capacity and the Banias terminal in Syria, which normally handles 700,000 barrels a day and whose tank farm was virtually destroyed in Israeli attacks, was handling an average of about 270,000 barrels a day in the two weeks up to 19 November with tankers being loaded direct from the pipeline. As there is no reason to believe that liftings of North Rumaila crude have declined, Iraqi production is estimated now at around 1.6 million barrels a day or more, which is less than 24 per cent below the September figure.

AUSTRALIAN ENVOY IN OIL TALKS

An Australian envoy, Ian Haig, who had served as Australian trade counsellor in Beirut, arrived in Baghdad on 17 November for talks on strengthening economic and other relations between Australia and Iraq especially in the sphere of oil. Iraq last year supplied Australia with an average of 32,200 barrels of crude oil a day, representing 20 per cent of Australia's crude oil imports. The Middle East as a whole supplied Australia with 74 per cent of its crude oil imports in that year and the Australian Government announced in September that it was sending Haig on a tour of the Middle East to study the oil industry and possibilities of closer co-operation (MEED 21:9:73, Regional Developments).

PRODUCTION AGREEMENT WITH E.R.A.P.

The **Iraq National Oil Company** (INOC) and **Elf-ERAP** of France have signed two agreements to regulate future production and accounting procedures regarding the Buzurgan and Abu Ghraib oilfields in south Iraq which the French firm is operating for INOC. Elf-ERAP discovered the two rich fields several years ago and an agreement to go ahead with production was signed in May after the acquisition of a 40 per cent interest in the scheme by Japanese firms (MEED 18:5:73). The two agreements signed on 13 November were a production agreement, specifying the method for calculating average annual production and arrangements under which the oil is received and loaded, and an accounts agreement which specifies the book-keeping system to be used, ways of classifying and recording expenses and general accounting rules.

$40 MILLION JAPANESE LOAN SOUGHT

A Japanese firm, **Sanyo**, is trying to raise a $40 million loan for Iraq from the Japanese Government and institutions to finance an $80 million agricultural project which the company hopes to carry out. A spokesman for the company has said that the project involves the construction of a dam on a tributary of the Tigris and an irrigation scheme linked to the dam covering 700 square kilometres. The project is due to be started next year and to be completed within six years.

Engineers from Sanyo visited Iraq earlier this year to study the possibility of carrying out an irrigation project in Nineva Governorate but it was reported at the time that the project would be based on the Khabour River, a tributary of the Euphrates and not of the Tigris (MEED 22:6:73).

PLANNING COMMITTEE WITH HUNGARY

Iraq and Hungary have decided to set up a joint planning committee within the framework of the economic co-operation agreement between the two countries. This was announced after a visit to Budapest by the Minister of Planning, Jawad Hashem, who spent a week in Hungary at the head of a delegation from his Ministry for talks on Hungarian help in developing Iraqi planning methods and the recruitment of Hungarian planning experts.

GRAIN SOUGHT FROM SOUTH AMERICA

A delegation from the Ministry of Agriculture & Agrarian Reform is visiting Brazil and Argentina to negotiate the purchase of up to 10,000 tons of grain for animal feedstocks.

IRAQ

1. Iraq Nationalizes US Interests in BPC: In direct retaliation against US backing for Israel in relation to the current renewal of fighting, Iraq on 7 October nationalized the interests of the two US companies - Exxon and Mobil - which together had a 23.75 percent share in the Basrah Petroleum Company (for text of the nationalization law and accompanying statement see pages i-iii). BPC is the last of the old IPC group of companies to be still operating in Iraq, the other two, the Iraq and Mosul Petroleum Companies, having been taken over by Iraq in June 1972 and March 1973 respectively. The other non-nationalized shareholders in BPC are Britain's BP (23.75%), France's CFP (23.75%), Royal Dutch/Shell (23.75%) and Partex (5%).

In its statement, Iraq's Revolutionary Command Council (RCC) said that it had nationalized the shareholding of the two US firms "while the American-Zionist aggression is being escalated against the Arab nation and in application of the adherence of the revolution in Iraq to the use of the oil weapon alongside the available military potential against the Zionist and imperialist aggression."

The statement also called upon the Arab states to (a) nationalize US oil interests and (b) suspend oil exports to the US and any other states supporting Israel.

BPC's production in August averaged 714,000 b/d, of which the share attributable to Exxon and Mobil was 170,000 b/d. However, BPC had been slated to play a much bigger role in the companies' crude oil supply pattern in the future since, under the massive expansion program agreed upon in the Iraqi-IPC settlement of 28 February 1973 and currently underway, export capacity is being expanded to 35 million tons/year (700,000 b/d) in 1973, 45 million t/y in 1974 (900,000 b/d), 65 million t/y (1.3 million b/d) in 1975 and 80 million t/y (1.6 million b/d) in 1976.

The first cargo of nationalized crude oil - a 120,000-ton shipment destined for Brazil - was shipped by the Iraq National Oil Company (INOC) from BPC's Khor al-Amaya terminal on 10 October.

2. Mannesmann Awarded $183-Million Contract for Onshore Section of Deep Sea Terminal Project: The Iraqi Minister of Oil and Minerals and President of the Iraq National Oil Company (INOC), Dr. Sa'dun Hamadi, signed on 5 October an ID 55-million ($183.5 million) contract with Mannesmann of West Germany for the construction of the section of the deep-water terminal project in south Iraq, involving installations linking North Rumaila to the Fao terminal. Earlier, on 21 September, INOC had awarded an ID 36-million ($122 million) contract to Brown and Root of the US for the construction of the offshore section of the project involving the laying of two 48-inch, 42-km. submarine pipelines and four loading platforms at Khor al-Khafji capable of handling tankers ranging from 35,000 to 350,000 tons (MEES, 28 September). Kafka

The contract awarded to Mannesmann entails the construction of a pumping station and ancillary facilities at North Rumaila, a 48-inch oil pipeline and a 10-inch gas pipeline between Rumaila and Fao, and a loading terminal and ancillary installations at Fao.

The project will be completed in two stages: the first, scheduled for completion in 18 1/2 months, will provide an export capacity of 50 million tons/year (1 million b/d); and the

G B

B80 TERMINALS -3- 150,000 TONS OF CRUDE SHIPPED

IT IS RECALLED THAT THE PUMPING OF IRAQI OIL BEGAN ON 3RD NOVEMBER FROM THE IRAQI OIL FIELD OF KIRKUK TO THE BANIYAS TERMINAL AND THAT 150,000 TONS OF CRUDE OIL HAVE ALREADY BEEN SHIPPED.

Oil in fire 15/11

END BBC MON 13/11 JL (KY) 2104

RECEIVED IN REGISTRY No 35 16 NOV 1973

NBR 12/7.

~~DED~~

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(76.)

ROYAL SWEDISH EMBASSY
British Interests Section
BAGHDAD

25 November 1973

RECEIVED IN REGISTRY No 35
-7 DEC 1973
NBR 12/7.

G. S. Burton, Esq.
Middle East Department

Mr Walters 29/xi
Mr Hunt 29/11
29/11

Dear Graham,

In a straightforward editorial on 24 November, in sharp contrast to the interminable polemics of Al Thawra, the Baghdad Observer gives Iraq's view on the 25% oil production cutback.

2. In paraphrase the message is "Iraq's sound stand was acknowledged at the recent Vienna meeting, which recognised that neutral foreign countries have suffered from the 25% cutback in total oil production. Iraq has urged that the cut should not be applied indiscriminately, and confirms that imposing an oil embargo on friends and enemies alike will do a lot of harm to the Arab cause of liberating usurped land. Supplying friendly countries will contribute to the understanding of the Arab cause by European countries."

Yours ever,

Len.

Mr ~~Wright~~.

Why can't we have more extremists like the Iraqis?

29/11

Yes indeed

29/xi.

Sent 3/12
Copy: Energy Dept.

CONFIDENTIAL

(77)

Royal Swedish Embassy
British Interests Section
Bagh[dad]

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REGISTRY No 35
14 DEC 1973

NBR 12/7

G S Burton Esq.,
Middle East Department,
Foreign & Commonwealth Office,
London.

Your reference

Our reference 12/1

Date 11 December, 1973

cc Mr Lockton ED D.

13/12

ENI (Italy)

Dear Graham,

OIL NEGOTIATIONS - IRAQ

Just a note to say that we believe there are CFP and Shell teams here at the moment negotiating with the Ministry of Oil.

2. However no reports of their negotiations have passed through us. This is unusual considering the amount of traffic we have had on some previous occasions. We shall try gently to find out what is going on.

3. So far as I am aware there has been no breach of confidence here (or in London) which would lead Shell or BPC not to use our system. Of course Shell in the past, when negotiating on their own, have avoided our communications, perhaps because they are government, or because they do not wish to be mixed up with what they might consider a BPC link.

4. Perhaps it is just the strain between HMG and the oil companies that has made them all a bit reticent just now.

Yours ever

Ian

I. McCluney

CONFIDENTIAL

RESTRICTED Enter. Mr Burton
Quite interesting. Is it indeed technically impossible para 3?
BS 31/XII

78

Royal Swedish Embassy
British Interests Section
Baghdad

G S Burton Esq.,
Middle East Department,
Foreign & Commonwealth Office,
London.

Your reference

Our reference NBR. 12/7.

Date 18th December, 1973

Dear Graham,

NEDC AND DUTCH SHELL NATIONALISATION IN BPC

Though I have no doubt that this has filtered through to you from other channels, I think it worth drawing attention to the effect on BPC of the nationalisation of its US and Dutch components.

2. This was and still is a paper exercise. The morning after the first nationalisation (of NEDC) Oil Minister Hammadi, flew to Basrah to assure his staff there in INOC and the Ministry that this would have no effect on the BPC expansion programme. General Manager Gillan reports from Basrah that they have had less difficulty from INOC and Min oil since nationalisation than before. Now that INOC have a share in the success of BPC they are leaving BPC to run themselves.

3. Of course there is a complex legal tangle to be sorted out in London. It is probably technically impossible for the Iraqis to nationalise Royal Dutch shares in Shell, and the NEDC position is far from clear. But the Iraqis seem confident that this will all be clarified with ease when compensation terms are agreed.

4. During my visit to Basrah and Fao, I found Iraqi officials (e.g. Governors office and INOC) at least helpful if not forthcoming and British technicians and their families, now numbering about forty, have had no difficulty. (It is true that the Iraqis have refused to renew the residence permit of a British priest in Basrah, but this has also happened in Baghdad and is a different problem).

Yours ever

Ian

I. McCluney

RECEIVED IN
REGISTRY No 35
18 DEC 1973

[redacted]

NBR 12/7

contracts. More recently, oil companies have almost completely stopped responding to requests for bids in supplying Defense Departments needs. By invoking the production act, the Defense Department gives oil companies legal authority to break contracts for deliveries to their civilian customers. (International Herald Tribune, Paris, November 28, 1973)

PA pre spl NBR 19/12

Hoveyda: Price of Oil Must Rise to Offset Inflation

Prime Minister Amir Abbas Hoveyda yesterday reaffirmed Iran's pledge not to use oil as a political weapon but noted that oil prices would rise to offset losses caused by imported inflation. At a reception in honour of the delegates to the British Investment Conference in Persepolis, Hoveyda said that it would be "a distortion of facts" to blame oil for Western inflation. "For October alone, I understand, food prices in England rose by 3.3 percent," the premier said. Assuring the Britons that "there will be no cutbacks in our oil production," the prime minister pointed out that the price of oil, like that of any other commodity, followed market trends.

"The laws of supply and demand determine the price of any commodity and oil is no exception. There is in the world today a scarcity of oil and other sources of energy, so their prices have risen," Hoveyda stated. Iran had to increase the price of its exports to offset its loss of purchasing power due to the rising cost of its imports." No government could be expected to do less," he said. (Kayhan International, Tehran, November 27, 1973)

Iraqi Crude Oil Imports are Boosted

Prague - Czechoslovakia is increasing its import of crude petroleum from Iraq under a three-year contract for 2.2 million metric tons. Payment will be made with industrial and consumer goods exports plus assistance in construction of an Iraqi refinery. The CSSR extended a $50 million loan (2.5 percent annual interest) to finance nine-tenths of equipment and services costs being supplied to Iraq. Repayments will be used to buy the crude from Iraq.

Longer-Term Deal - The CSSR also has a longer-term crude deal with Iran that figures to involve receipt of 20 million tons during this decade against a $200 million equipment credit. Additional purchases of crude from Nigeria and Libya remain a possibility, as the demand for oil here rises beyond what the Soviets traditionally supply. The country probably imported a total of 12 million tons of crude last year. During this decade, oil's role as a prime power source is to rise from 18.7 to 29 percent of consumption. Domestic production barely supplies 200,000 tons yearly and is static. In 1975, although the Soviets are to supply 15.5 million tons, crude oil demand is likely to be at least 18 million to satisfy the needs of petrochemical and plastics expansion especially, both fast-growing sectors. For 1980, the CSSR anticipates a need for non-Soviet crude in the neighbourhood of 3 million tons. Hence, the search for new supplies. (Journal of Commerce, New York, November 26, 1973)

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Royal Swedish Embassy
British Interests Section
Baghdad

RECEIVED IN REGISTRY No 35
- 3 JAN 1974
NBR 12/7

G S Burton Esq.,
Middle East Department,
Foreign & Commonwealth Office,
London.

Your reference

Our reference 12/1

Date 22nd December, 1973

Dear Graham,

15/1 pa

NATIONALISATION OF PARTEX IN IRAQ

The Partex (Gulbenkian) 5% holding in the Basrah Petroleum Company was nationalised on 20 December, 1973.

2. This share has passed to the Iraq National Oil Company. Basrah Petroleum Company have protested on behalf of Partex in writing. The reason given for the nationalisation is "the hostile attitude of the racist Portuges (Partex is registered in Portugal) regime against the Arab nation". The decision was unexpected in as much as the Iraqis have not recently made a special point of critiscising Portugal, or emphasising the Portugese nature of the Partex share. But if we can accept that their objective is to nationalise the oil industry, it is only a matter of guessing what timing they will choose. The remaining shares are BP (23¾%) CFP (23¾%) and British Shell (9½%).

Yours ever

Ian.

I. McCluney

Encl.

c.c. Algiers
Abu Dhabi
Bahrain
Cairo
Damascus
Doha
Jedda
Kuwait
Muscat
Tehran
The Hague
Paris
Tripoli
Beirut
Lisbon

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The reduction of production in the manner arranged by the Arab reactionary quarters, succeeding in drawing in other Arab quarters, means in practice the deprivation of the West European countries and Japan of their oil requirements, causing them a very difficult economic crisis.

If you compare the effect created by the oil embargo decision against the U.S. and that caused by the reduction of production in Europe and Japan, it would be obvious that the greater damage has been sustained by Europe and Japan and not the U.S. This is a big political mistake, if the purpose of this policy is to create favourable conditions for the Arabs in their just struggle against the Zionist enemy. Although West Europe has got its important weight in pressuring the enemy, and notwithstanding the urgent need for its taking an explicit and just attitude on the lawful Arab cause, West Europe is not the strongest party supporting the Zionist aggression and enabling it to contain with the occupation of Arab land in defiance of human values and sentiments. The party which is doing that is well-known, namely, the U.S. which is unreservedly supporting the enemy with arms, money and political support. It would be the natural thing to direct the oil weapon against the U.S. and those standing by it, and not against the other states and parties.

Detriment to the Arab Stand

The pro-U.S. and pro Zionist quarters are trying to exploit this situation in the most hedious manner and on a large scale in order to discredit the Arab stand and the just Arab cause by depicting the Arabs as avengers against states and people without reasonable justification, indifferent to their basic requirements and using the resources in a blackmailing manner.

If we are really concerned about our cause, which is one of the most just in the

the contrary inflict great damage upon it.

We should be perfectly frank and ask: who is to gain from this policy?:

All political and economic indications point out that the U.S. is ultimately the biggest benefiter from this policy. It is true that the reduction of production has increased the interest of European and the Japanese in the Arab cause and induced many of them to adopt better political stands. But the final outcome of this policy, if it were to continue along this line, would be in favour of American strategy, and this should be well realised by the Arab masses and the countries of West Europe and Japan.

The occurrence of an acute economic crisis in West Europe and Japan might push them at present into issuing relatively good statements. But these countries will find themselves compelled to abandon their independent policy and rely more and more upon the U.S. in a subsequent stage.

Prior to the October war, the U.S. had called for a bloc of consumer countries to face the OPEC. The West European countries and Japan had taken a negative attitude to this call: but now, and in the future, and in the event of continuing this erroneous policy under the guise of employing oil as a weapon, this call would fall on willing ears.

The U.S. controls the greater part of the output of the Arab countries and other Middle East countries, and dominates the marketing and the prices at will. Following the aggravation of the economic crisis in West Europe and Japan the U.S. would come forth as their saviour, acting through her monopolist companies as well as through her well known agents in the area —

On the Question of Price Increase

There is the question of increase in prices. The demand

while the other countries would be harmed. On the other hand it is well known that the oil production costs in the U.S. and Alaska are very high in comparison with the production costs in the Middle East. The U.S. has been incapable of competing with other oils on the world markets. Following the recent increases in prices and the continued rate of their rise, the American oil produced in U.S. and Alaska would be more "economical" than before, and might become capable of competition on the world markets. It has also become possible to invest very huge capital for its extraction.

The price increase in this form would result weakening the European and Japanese oil companies, which are independent of the world monopoly dominated by the U.S., and perhaps in their final destruction. This would result in grave consequences. If the U.S. were to succeed in squeezing these companies out of the world market she will become a supreme controller of the world oil policy and the oil prices.

Nationalisation Is the Real Path

In addition to all that has been said, this erroneous policy would provide imperialism and Zionism with all the pretexts they have been trying to obtain for perpetuating the most hedious crimes against the Arab people under the guise of defending the world and human civilisation.

Such are the main concrete results now and in the future of the policies followed by the Arab reactionary quarters, servants of U.S., and which has swept other quarters regrettably.

These policies are not in the interests of the Arab cause but serve the American strategy.

We strongly warn against the dire consequences of following in the steps of this suspicious policy. The Arab patriotic quarters should be aware of the dangers and

about our cause, which is one of the most just in the world, and eager for winning the peoples' support for us, we should not offer any justifications or pretexts for our enemies to distort our stand in this manner.

Throughout the past years, and thanks to the independent political line followed by General de Gaulle, West Europe started gradually to head for relative independence of the American positions in many aspects, including the attitude to the Arab cause. This development, regardless of the opinions and assessments concerning it, is in the interests of the Arabs.

It is to be presumed that the Arabs should strive by all means to develop this attitude and build up Arab European relations based on equality, mutual respect and common benefits.

Who is to Gain from the Erroneous Policy?

However, recent measures taken by some Arab countries do not serve this aim but on

There is the question of increase in prices. The demand for increase in prices on the part of the producing countries is a lawful justified by the high and concurrent increases in the prices of the various goods manufactured in the industrial countries. But the recent increases which have occurred at a mad pace, have brought grist to the mill of the American strategy, the same as the policy of the output reduction in the manner in which it has been applied. This policy confirms the image which American imperialism and Zionism is trying to create of the Arabs, namely the attempt at depicting the Arabs and as blackmail at the time when the Arabs have all right and justice on their side. At the same time this policy is fraught with grave economic consequences. The American monopolist oil companies are the biggest in the world and hence the price increases would augment the profits of these companies. The U.S would benefit from that

patriotic quarters should be aware of the dangers and intrigues with which it is fraught to the Arab cause and they should expose it most vigorously.

The real and successful path for using oil as a weapon in the face of the U.S and the Zionist enemy is to nationalise the American oil interests and the interests of any country siding by the enemy. It is this weapon which will actually compel the U.S to stop supporting the enemy.

At the same time nationalisation would bring us full economic independence, enabling us to fully control our resources and freely deal with the countries of the world, on the basis of equality and mutual benefit and in a manner promoting the prosperity of both our people and the peoples of the world.

Such is the path we have chosen in Iraq and which has been proved by experience to be correct and to fully embody our patriotic and nationalist interests and aspirations.

21/12/73

Nationalisation real way of using oil as a weapon

SADDAM HUSSEIN ON IRAQ'S OIL DEVELOPMENT STRATEGY

"The real and successful way of using oil as a weapon against the United States and the Zionist enemy is by nationalising American oil interest and the interests of any country standing by the enemy. This is the weapon which actually forces America to cease supporting the enemy."

This was stated by Comrade Saddam Hussein, Deputy Secretary of the Regional Leadership, Vice Chairman of the RCC and the Chairman of the Follow up Committee of Oil Affairs and agreements, to the daily AL-THAWRA, the following is the text of the interview.

"The ruling reactionary quarters, well-known for their connections with America and the American monopolist interests have already rejected the slogan of employing oil as a weapon in the nationalist battle against the Zionist-imperialist aggression. All the serious proposals and plans submitted by Iraq along the Arab official and popular fields have been rejected, which plans have been based on solid nationalist and scientific foundations in order to achieve their intended goals in the best way.

When the war broke out on 6th October 1973, those quarters remained silent, and did not take any measures in the field of oil. But following the nationalisation by Iraq of American shares in the Basrah Petroleum Company on 7th October, and with the mounting battle against the enemy and the rising total and urgent popular demand for assailing the American interests in the area, and following more than ten days of war these quarters started adopting a series of measures in the field of oil, chiefly the stopping of oil supplies to the U.S. and Holland, and the reduction of the general production.

Oil Embargo and Output Reduction

The stoppage of oil supplies to the U.S. and Holland is a correct measure, although we have regarded it as weak and inadequate for pressuring the U.S. and deterring her from supporting the enemy. But the policy of reducing production in general has damaged other countries more than it has done the U.S., which is a very different matter, leading into results opposed to its declared purposes.

ANOTHER OIL NATIONALISATION MOVE

RCC NATIONALISES SHARES OF PORTUGUESE GULBENKIAN FOUNDATION IN BPC

HOSTILE ATTITUDE OF RACIST PORTUGAL AGAINST ARAB NATION

The Revolutionary Command Council resolved yesterday to nationalise the common share of the Participation and Exploration Company in the Basrah Petroleum Company Limited held by the Portuguese Gulbenkian Foundation. Following are the full texts of the Resolution and Law promulgated in that connection.

"In view of the hostile attitude of the racist Portuguese regime against the Arab nation, which was especially evident during the October War, and as Portugal is a racist state exercising the most ruthless acts of terrorism and annihilation against the peoples of Africa who fight for their liberty and independence, and in confirmation of Iraq's attitude in support of national liberation movements in Africa and elsewhere in Europe, and in implementation of the principle of using oil in the national Arab battles, and as Gulbenkian Foundation holds the Portuguese nationality and exercises most of its activities in the territory of that state and spends most of its resources in it, thus renders Portugal the foremost beneficiary of profits accruing to the Foundation from its share in the BPC operations, the Revolutionary Command Council has decided to nationalise the Gulbenkian share in the operations of Basrah Petroleum Company Limited, as per the following law.

"Pursuant to Para A, Article 38 of the interim Constitution, the Revolutionary Command Council resolved at its session held on December 20, 1973, to promulgate Law No. 101 of 1973."

"Article One: The common share of the Participation and Exploration Company held by Gulbenkian Foundation of Portugal amounting to 5 per cent in the operations of Basrah Petroleum Company Limited in Iraq, shall be nationalised, and the title deed of that share together with all rights to the said operations shall revert to the State.

"Article Two: The title deed of the said share and all property, rights and assets which have reverted to the State under Article One hereof, shall be transferred to the Iraq National Oil Company which shall not be liable to previous obligations related to the said share except in as much as has been reverted to the State, with no other obligations being considered.

"Article Three: The State shall pay compensation for the rights reverted to it under Article One hereof to the equivalent of the net book value thereof, less the amounts required to settle taxes, duties, fees and any other amounts due to the Government of the said share.

"Article Four: The Iraqi National Oil Company shall have the right to carry out crude oil sale contracts currently in force and related to the nationalised share, rescind or amend the same in accordance with the interests of the State.

"Article Five: Any provision, judgement, agreement or dispensation in violation of provisions hereof shall be totally nul and void.

"Article Six: In case any company participating in BPC Limited or any other party having relation or interest in the said company's operations in Iraq or the nationalised share should undertake any action in violation of this law, the Government, without violation of the sanctions and penalties provided for in effective laws, may rescind any concession, share, interest or compensation accruable to such company or party in Iraq.

"Article Seven: The Minister of Oil and Minerals may issue instructions and adopt necessary measures to enforce this law.

"Article Eight: The ministers are charged with the implementation of this law.

"Article Nine: This law shall come into force as from December 20, 1973."

BAGHDAD OBSERVER 21/12/73

(80.)

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Embassy of the Republic
of Afghanistan

IRAQI INTERESTS SECTION
21 QUEEN'S GATE
LONDON SW7 5JG
TELEPHONE 01 - 584 7141/6

At last. the definitive version.
copies to: Mr Lockton Energy Dept
Mr Bouston ?
PA 7/1.
then R and pa
PCS.

The Embassy of the Republic of Afghanistan, Iraqi Interests Section presents its compliments to the Foreign and Commonwealth Office and has the honour to bring to their attention the statements given by Mr. Saddam Hussein, Deputy Secretary of the Regional Leadership, Vice Chairman of the R.C.C. and the Chairman of the Follow-up Committee of Oil Affairs and Agreements, to the Daily Al-Thawra concerning oil.

The Embassy of the Republic of Afghanistan, Iraqi Interests Section avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurances of its highest consideration.

London, 31st December 1973

THE REPUBLIC OF AFGHANISTAN
EMBASSY OF THE ... LONDON

Foreign and Commonwealth Office,
London.

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Embassy of the Republic
of Afghanistan

IRAQI INTERESTS SECTION
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"The ruling reactionary quarters, well known for their connections with America and the American monopolist interests have already rejected the slogan of employing oil as a weapon in the nationalist battle against the Zionist-imperialist aggression. All the serious proposals and plans submitted by Iraq along the Arab official and popular fields have been rejected, which plans have been based on solid nationalist and scientific foundations in order to achieve their intended goals in the best way.

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The stoppage of oil supplies to the U.S. and Holland is a correct measure, although we have regarded it as weak and inadequate for pressuring the U.S. and deterring her from supporting the enemy. But the policy of reducing production in general has damaged other countries more than it has done the U.S., which is a very different matter, leading into results opposed to its declared purposes.

The reduction of production in the manner arranged

/by the Arab reactionary

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by the Arab reactionary quarters, succeeding in drawing in other Arab quarters, means in practice the deprivation of the West European countries and Japan of their oil requirements, causing them a very difficult economic crisis.

If you compare the effect created by the oil embargo decision against the U.S. and that caused by the reduction of production in Europe and Japan, it would be obvious that greater damage has been sustained by Europe and Japan and not the U.S. This is a big political mistake, if the purpose of this policy is to create favourable conditions for the Arabs in their just struggle against the Zionist enemy. Although West Europe has got its important weight in pressuring the enemy, and notwithstanding the urgent need for its taking an explicit and just attitude on the lawful Arab cause, West Europe is not the strongest party supporting the Zionist aggression and enabling it to contain with the occupations of Arab land in defiance of human values and sentiments. The party which is doing that is well-known, namely, the U.S. which is unreservedly supporting the enemy with arms, money and political support. It would be the natural thing to direct the oil weapon against the U.S. and those standing by it, and not against the other states and parties.

The pro-U.S. and pro Zionist quarters are trying to exploit this situation in the most hedious manner and on a large scale in order to discredit the Arab stand and the just Arab cause by depicting the Arabs as avengers against states and people without reasonable justification, indifferent to their basic requirements and using the resources in a blackmailing manner.

If we are really concerned about our cause, which

/is one of the most

~~ROYAL AFGHAN EMBASSY~~
Embassy of the Republic
of Afghanistan

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LONDON SW7 5JG
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is one of the most just in the world, and eager for winning the peoples's support for us, we should not offer any justifications or pretexts for our enemies to distort our stand in this manner.

Throughout the past years, and thanks to the independent political line followed by General de Gaulle, West Europe started gradually to head for relative independence of the American positions in many aspects, including the attitude to the Arab cause. This development regardless of the opinions and assessments concerning it, is in the interests of the Arabs.

It is to be presumed that the Arabs should strive by all means to develop this attitude and build up Arab-European relations based on equality, mutual respect and common benefits.

However, recent measures taken by some Arab countries do not serve this aim but on the contrary inflict great damage upon it.

We should be perfectly frank and ask: who is to gain from this policy?

All political and economic indications point out that the U.S. is ultimately the biggest benefiter from this policy. It is true that the reduction of production has increased the interest of European and the Japanese in the Arab cause and induced many of them to adopt better political stands. But the final outcome of this policy, if it were to continue along this line, would be in favour of American strategy, and this should be well realised by the Arab mases and the countries of West Europe and Japan.

~~ROYAL AFGHAN EMBASSY~~
Embassy of the Republic
of Afghanistan

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The occurrence of an acute economic crisis in West Europe and Japan might push them at present into issuing relatively good statements. But these countries will find themselves compelled to abandon their independent policy and rely more and more upon the U.S. in a subsequent stage.

Prior to the October war, the U.S. had called for a bloc of consumer countries to face the OPEC. The West European countries and Japan had taken a negative attitude to this call; but now, and in the future, and in the event of continuing this erroneous policy under the guise of employing oil as a weapon, this call would fall on willing ears.

The U.S. controls the greater part of the output of the Arab countries and other Middle East countries, and dominates the marketing and the prices at will. Following the aggravation of the economic crisis in West Europe and Japan the U.S. would come forth as their saviour, acting through her monopolist companies as well as through her well known agents in the area.

There is the question of increase in prices. The demand for increase in prices on the part of the producing countries is a lawful justified by the high and concurrent increase in the prices of the various goods manufactured in the industrial countries. But the recent increases, which have occured in a mad pace, have brought grist to the mill of the American strategy, the same as the policy of the output reduction in the manner in which it has been applied. This policy confirms the image which American imperialism and Zionism is trying to create of

/the Arabs, namely the attempt

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the Arabs, namely the attempt at depicting the Arab stand as blackmail at the time when the Arabs have all right and justice on their side. At the same time this policy is fraught with grave economic consequences. The American monopolist oil companies are the biggest in the world, and hence the price increases would augment the profits of these companies. The U.S, would benefit from that while the other countries would be harmed. On the other hand it is well known that the oil production costs in the U.S. and Alaska are very high in comparison with the production costs in the Middle East. The U.S. has been incapable of competing with other oils on the world markets. Following the recent increases in prices and the continued rate of thier rise, the American oil produced in U.S. and Alaska would be more "economical" than before, and might become capable of competition on the world markets. It has also become possible to invest very huge capital for its extraction.

The price increase in this form would result weakening the European and Japanese oil companies, which are independent of the world monopoly dominated by the U.S., and perhaps in their final destruction. This would result in grave consequences. If the U.S. were to succeed in squeezing these companies out of the market she will become a supreme controller of the world oil policy and the oil prices.

In addition to all that has been said, this erroneous

/policy would provide

~~ROYAL AFGHAN EMBASSY~~
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of Afghanistan

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policy would provide imperialism and Zionism with all the pretexts they have been trying to obtain for perpetuating the most hidious crimes against the Arab people under the guise of defending the world and human civilization.

Such are the main concrete results now and in the future of the policies followed by the Arab reactionary quarters, servitors of U.S., and which has swept other quarters regrettably.

These policies are not in the interests of the Arab cause but serve the American strategy.

We strongly warn against the dire consequences of following in the steps of this suspicious policy. The Arab patriotic quarters should be aware of the dangers and intrigues with which it is fraught to the Arab cause; and they should expose it most vigorously.

The real and successful path for using oil as a weapon in the face of the U.S. and the Zionist enemy is to nationalise the American oil interests and the interests of any country siding by the enemy. It is this weapon which will actually compel the U.S. to stop supporting the enemy.

At the same time nationalisation would bring us full economic independence, enabling us to fully control our resources and freely deal with the countries of the world, on the basis of equality and mutual benefit and in a manner promoting the prosperity of both our people and the peoples of the world.

Such is the path we have chosen in Iraq and which has been proved by experience to be correct and to fully embody our patriotic and nationalist interests and aspirations.

GRS 300

EN CLAIR

FM BAGHDAD 200945Z D DEC.

UNCLASSIFIED

TO ROUTINE FCO TEL NO 550 OF 20 DECEMBER 1973.

IRAQ - OIL POLICY.

FOLLOWING ARE MAIN POINTS OF PRESS STATEMENT BY VICE PRESIDENT SADDAM HUSSEIN PUBLISHED 20 DECEMBER IN AL THAWRA.

2. SADDAM HUSSEIN SAID THE CESSATION OF ARAB OIL SUPPLIES TO USA AND HOLLAND WAS A PROPER THOUGH WEAK MEASURE, SINCE IT WAS RELATIVELY MORE HARMFUL TO EUROPE AND JAPAN : THE GENERAL REDUCTION IN PRODUCTION COULD EVENTUALLY HAVE THE OPPOSITE EFFECT TO THAT INTENDED.

3. IT IS A MAJOR POLITICAL MISTAKE THAT MAJOR DAMAGE IS NOW BEING CAUSED TO EUROPE AND JAPAN. WHILE IT IS NECESSARY THAT THOSE COUNTRIES SHOULD TAKE A PLAIN AND JUST ATTITUDE TO THE ARAB CAUSE, THE OIL WEAPON SHOULD BE DIRECTED AT THE STRONGER PARTY USA WHO IS GIVING ABSOLUTE SUPPORT TO THE ZIONISTS.

4. DURING PAST YEARS, THANKS TO DE GAULLE, WEST EUROPE HAS ACHIEVED GRADUAL INDEPENDENCE FROM THE ATTITUDE OF USA. ARABS SHOULD ENCOURAGE THIS. REDUCED OIL PRODUCTION HAS BEEN INITIALLY SUCCESSFUL, BUT A SERIOUS ECONOMIC CRISIS IN WEST EUROPE AND JAPAN WILL FORCE THEM TO RELINQUISH INDEPENDENT POLICIES AND DEPEND ON AMERICA.

/ 5. PRICE

5. PRICE INCREASES - THOUGH THESE ARE LEGITIMATE, AS PRICES OF MANUFACTURED GOODS RISE, THEIR EFFECT IS TO US ADVANTAGE. ALSO THEY SUGGEST TO CONSUMERS THAT THE ARAB ATTITUDE AT THIS TIME IS ONE OF EMBEZZLEMENT WHEN IN FACT IT IS RIGHT AND JUST. IT ALSO HAS GRAVE ECONOMIC CONSEQUENCES,
A) INCREASING US OIL COMPANY PROFITS WHILE OIL CONSUMERS SUFFER
B) ENABLING HITHERTO EXPENSIVE US OIL SOURCES TO BECOME COMPETITIVE ON WORLD MARKETS.

6. THE SUCCESSFUL WAY OF USING OIL AS A WEAPON AGAINST USA IS TO NATIONALISE US PETROLEUM INTERESTS AND THOSE OF EVERY COUNTRY SUPPORTING THE ENEMY.

MCCLUNEY

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(82)

Royal Swedish Embassy
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RECEIVED IN
REGISTRY No 35
10 JAN 1974
NBR 12/7 (1973)

G S Burton Esq., Middle East Department,
Foreign & Commonwealth Office,
London.

Your reference

Our reference 12/1

Date 2nd January, 1974.

Enter

Dear Graham,

DECLARATION BY SADDAM HUSSEIN 20 DECEMBER, 1972

In my telegram 550 of 20th December,1973 I reported Saddam Husseins speech on Iraqs Oil Policy, and subsequently sent you a copy of the translation as it appeared in the Baghdad Observer.

2. Since then, we have unusually received from the MFA, addressed to us, a copy of his speech in Arabic.

3. You may think this opens the way for us to send to the MFA copies of our own public speeches and statements of policy to the Iraqis. I have not discussed this with Otto Rathsman, the Swedish Ambassador, but will do so if you wish.

Yours ever
Ian
I. McCluney

Happy New Year to you + Peter.
Ian

__Translation__

No. 1421/221/600/35333

Ministry of Foreign Affairs
Public Relations Department

Dated 22 December 1973

The Ministry of Foreign Affairs presents its compliments to the Diplomatic Corps at Baghdad and has the honour to enclose herein the text of a declaration made by Saiyid Saddam Husain, Vice-President of the Revolutionary Command Council, on the oil policy of Iraq, on 20 December 1973.

The Ministry avails itself of this opportunity to express its highest consideration and esteem.

The Royal Swedish Embassy
British Interests Section
Baghdad

__Note by Translator:__
A translation of the declaration appeared in the Baghdad Observer on 21 December 1973.

(83)

Middle East Economic Survey

A weekly review of news and views on Middle East Oil

Supplement to

VOL. XVII NO. 9 21 DECEMBER 1973

LAST PAPER

NBR 12/7. Rand pa

HAMMADI SPELLS OUT CURRENT IRAQI OIL POLICY

In a major interview this week with the Beirut daily al-Anwar, 18 December, Dr. Sadoon Hammadi, Iraq's Minister of Oil and Minerals, reviewed at length all aspects of his country's oil policy. There follows the full text of this interview in question and answer form, translated by MEES from the original Arabic:

Q: In many circles talk is centering on Iraq's position on the subject of the cutbacks in oil production and the use of oil as a weapon in the battle. After hearing that you were calling for nationalization, we now find that you are not only not reducing production but are actually raising it. Arab public opinion must have an explanation of this position, and an answer to a number of questions which summarize what is being said in conferences and meetings. Shall I submit them now?

A: Before you begin to put your questions, I will tell you about our concept of the oil question and its relationship to economic development. At the extraordinary conference held by OPEC to discuss the energy crisis, Iraq explained its views on the role of oil in the question of economic development. It has restated these views on other occasions, and there is no harm in repeating them now.

The essence of this view is that the oil producing countries, among them Iraq, can use the production and export of oil to their advantage in the process of economic development by means other than the traditional and well-known ones, which are based on the fact that oil is a commodity which is produced and sold, bringing financial returns to the country which produces it.

Economic development is not a question of finance alone, since it is possible for a country to receive very high financial returns while the process of its internal economic development remains sluggish. Our view is that the export of oil must be part of a wider economic cooperation between the producers and the consumers, by which I mean the industrialized countries. Large-scale economic cooperation must be established on the basis of long-term relations based on the export of oil to an industrialized country in an organized and secure manner on the one hand, balanced on the other by the oil producing country receiving development, various kinds of industries and means of production and the results of scientific research from the industrialized country. That is, the producing country can get the technical and technological expertise in production it both needs and lacks.

LAST PAPER

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This process of economic cooperation further ensures that the producing country obtains the markets necessary to dispose of the products resulting from the process of economic development. In short, we feel that the producing countries must obtain those benefits which accelerate the process of economic development in return for the receipt by industrialized consuming countries of guarantees for the continued supply of the energy necessary for their economic growth. The consuming country must participate in the development of the producing country by implementing projects, shortening the time needed for development, supplying technical expertise and guaranteeing markets. This kind of joint long-term cooperation is in the interests of both producers and consumers.

The oil business must be unlike trade in any other commodity, and it must be linked to the process of economic development in the producing country. The practical expression of this policy is the conclusion of bilateral or collective agreements between the producing countries and the industrialized consuming countries. Under these agreements the production of oil or cooperation in producing it will be the counterpart for wide-ranging economic deals which will include cooperation from the consuming countries and a commitment to participate in the implementation of development plans in the producing countries.

Iraq has stated this policy on numerous occasions and has begun to implement it with a number of countries. It is now at the stage of expanding the scope of the policy and its area of application.

Q: What is the daily average oil production in Iraq, and how much was it last year? What is the extent of the increase decided on for the future?

A: Our average production this year is in the region of 2.1 million b/d, which is 43 percent more than average daily production in 1972. In 1972 average daily production fell to less than 1.5 million b/d as a result of the major cutback carried out by the Iraq Petroleum Company in its production from the northern fields, which resulted in the nationalization of its operations in Iraq in June of that year. As for our present plans, we aim to raise production to more than 3.5 million b/d by the beginning of 1975.

Q: How do you reconcile this increase in production with your stated policy that you intend to use oil in the current struggle between the Arabs and Israel?

A: The use of oil as a weapon in the battle is not just a policy intention on our part, it is a necessity. Any nation facing the dangers confronting the Arab nation would do the same. Iraq as part of the Arab nation certainly uses its oil production and the revenues from it in the service of the Arab cause in Palestine. This was dictated to us by previous considerations, the conditions of our oil policy, the direction of our exports and our trade links. For these reasons there is no connection between our use of oil as a weapon and our increase in production.

In fact the increase in our oil production is not as large as it appears at first glance. Iraq is considered one of the richest countries in the region in terms of oil reserves. Despite this, the average increase in annual oil production during the last ten years has been the lowest in the area, and has not exceeded 5 percent annually. As for the present increase and that decided upon, these are only partial compensation for the accumulated adverse effects stemming from the production policy followed by the oil companies, such as IPC before the nationalization of its operations.

Q: What policy has Iraq formulated in this respect, and is there a fixed plan to use oil as a weapon which you regard as more advantageous?

A: Iraq has for a very long time proposed the use of oil in the battle. In meetings of the relevant organizations, in the sphere of the Arab League, and at the meeting of the Arab oil producing countries in Kuwait, Iraq submitted a plan drawn up to this end, and it has also made bilateral contacts with some Arab oil countries on this subject. Our plan consists of the following points:

Firstly, the nationalization of American oil interests in the area. Nationalization means placing American oil interests in the area under the control of the public sector and transferring control over the oil produced by these interests from the American companies to the public sector. Iraq believes this is a more effective means than preventing oil from reaching the US. The nationalization of American oil interests in the area is an action which will damage American interests not only now but over a long period as well. It is an action to wipe out American oil influence in the area.

Secondly, the withdrawal of Arab reserves from US banks and their employment in the development of the Arab countries or their deposit in the banks of friendly countries if need be.

Thirdly, the breaking of diplomatic and economic relations with the US.

This program is based on an analysis whose thrust is that the US is the main enemy and the main power supporting Israel. Therefore, if we want to fight this enemy we must confront him directly and seriously.

The nationalization of American oil interests in the area is not as difficult as it used to be claimed that nationalization in general was. The oil companies need oil and the world is in the midst of an unprecedented oil crisis. These companies are in the first instance concerned with the continuity of supplies, and in their present circumstances cannot take any counter-measures. The nationalization by Libya of 51 percent of the oil interests in its territory and the failure of the companies to take any counter-measures is a clear indication that the question of nationalization is surrounded by illusions which the companies have done much to create. As for the question of technical personnel, Libya does not enjoy a much better situation than other Arab countries. Whatever happens, technical expertise is available in the world and can be bought.

As for the withdrawal of reserves, this will put a new burden on the US in the problems it is facing in its balance of payments.

Iraq's view in proposing this policy is that since we know who is the foremost power supporting Israel we should direct the punishment directly at the target. We should distinguish between the real enemy and the false enemy, between the neutrals and those who take the initiative in support of the Arab cause, and between true and false friends. We cannot but distinguish between one country and another, and as participants in the battle we should not inflict a general punishment on the whole world and place everyone in one category.

Q: Another view is that pressure should be brought on all countries by reducing production, in order to encourage these countries to pressure the US to pressure Israel in turn. It appears that this policy has begun to pay off, since nine European countries have issued their statement

supporting the Arab position and developments have occurred in the position of Japan and the Phillipines and even Holland. What comments do you have on that?

A: We still think this indirect approach is incorrect, especially since the direct road is there and available. The direct road for whose use we have called will strike a real blow against US interests in this battle and the Arab states will at the same time take an important step towards liberating their oil wealth, which must one day be liberated.

The action of reducing production inflicts damage on everyone without considering the attitude of this or that country towards us. It also leads in practice to the infliction of unequal damage, depending on a country's need for oil, what it imports from the Arab countries, what it consumes and what it produces domestically. The volume of oil produced by the US itself represents a high proportion of its total consumption, while Western Europe imports most of its consumption requirements, as does Japan. The percentage of Arab oil imported by the US in comparison to its total imports is much less than the percentage of Western Europe's imports from the Arab countries compared to its total imports, and this is even more true of Japan. Therefore it is to be expected that the adverse consequences of the across-the-board cutback in output will be greater in Western Europe and Japan than in the US. This is a matter whose effects are now beginning to become clear.

Q: What percentage of production does the national sector control in Iraq?

A: The national sector now controls more than 75 percent of production. Iraq has no agreement to export any of its national oil to the US.

Q: What about the American share in the Basrah Petroleum Company?

A: The American shares in BPC have been nationalized. British Petroleum and the Compagnie Francaise des Pétroles are not selling anything to the US. I would like to repeat that Iraq does not think that a general cutback in oil production is correct, but believes it necessary to aim directly at the target and not to harm those not aimed at. What is happening now is that non-targeted areas are suffering from a crisis and from an energy shortage, especially friendly countries.

Q: As part of this policy, is Iraq doing anything to help these countries?

A: Iraq is now shouldering the task of solving the problems which friendly countries face because of the cutback by supplying them with national sector oil. Numerous delegations from friendly countries have arrived in Baghdad for discussions and negotiations. Delegations from Spain, Austria, Brazil, Poland, Tanzania, Pakistan, India and Bulgaria have come to us. All these countries are friendly and have stood at our side; but, despite this, they are now suffering a dangerous crisis. Iraq is trying as far as its limited capacity permits to solve their energy shortage problems.

Moreover, the crisis which has been intensified by the production cutback has led to an unforeseen increase in prices, thus placing a heavy burden on the hard currency reserves of friendly countries. If this situation continues it will lead to the economic collapse of some developing countries. We cannot ignore the burden which we, the Arabs, are loading on the backs of friendly developing countries. And beyond that we are linked by obligations which cannot be ignored.

Q: How far do you think it is possible to go in raising oil prices?

A: **As an oil producing country we must think of the future, and we must know how far we can permit prices to be raised. The industrialized countries which need oil are at the same time countries which have enormous technological capabilities, and they possess other sources of energy which have not previously been economic. An excessive rise in the price of oil must entail risks which expose our markets to possible danger. We cannot put the economies of the industrialized areas in real jeopardy without expecting the possibility of repercussions.**

Q: What do you think the repercussions might be?

A: **They might take the form of a search for energy other than oil. Or they might take the form of alliance, confrontation, imposing penalties, raising the price of the industrial plant we require or even banning the export of some equipment which is important to economic development. Our position would be disrupted by this kind of action, if it occurred, since it would inflict greater economic harm than the benefits we might derive from unlimited price increases. Put another way, increasing prices and rising demand are something understood and normal, but if they exceed certain limits and get out of control it must create a harmful situation which we cannot ignore. We believe in the need to achieve economic stability in the world so that we can ensure the flow of industrial goods and equipment and industrial technology which are necessary for the development of our country at reasonable prices.**

Q: How do you view the relations which ought to be established between the producing countries and the consumers, both industrialized and developing?

A: **We see the need to continue supplying oil to the industrialized countries in the light of our finance requirements and in the light of the extent of the cooperation of these countries in accelerating the development of our country. But that does not mean we are relying on inflicting damage, which is unjustified both economically and politically, on the economies of these countries. Put differently, in general we support the formation of natural relations between the producers and consumers.**

Regarding the developing countries we believe it is necessary to pay them special attention. Naturally I do not think it is possible to set varying price levels for oil, since that would be impractical. We see the need to lighten the burden in relation to energy on the developing countries, but we do not believe that selling oil at different prices is a practical method. We believe many possibilities exist for cooperation between the developing and producing countries, in many fields, and this cooperation will relieve the pressure of rising oil prices - by means of such avenues as joint projects, the establishment of credit and long-term loan organizations, etc.

Q: **What has Iraq done in the field of aid to the developing countries, and is it prepared to cooperate with the other Arab countries which have decided to establish a fund for aid to the developing countries?**

A: **Iraq is prepared to cooperate with its brothers in this field, as in others, to the limits of cooperation. At another level, Iraq is now putting the finishing touches on a program for technical cooperation in the oil industry with the African countries in general. Approaches have been made to a number of African countries in this respect. There is no contradiction between what we are doing and our willingness to participate in the development fund whose establishment has been decided on.**

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Q: Recent reports have stated that the participation negotiations between the Arab producing states and the oil companies operating on their territories will lead to those countries obtaining a 60 percent share in the companies. Do you not think that this advance narrows the difference between the nationalization you have proposed and the participation called for by others?

A: We believe that every Arab state which increases its control over its oil resources comes ever closer to its objective of economic liberation, and naturally we welcome any increase in this control, which we hope will be total.

Q: What is Iraq's position on the boycott of Rhodesia and South Africa and the cut off of oil supplies to those countries?

A: Iraq instructed its delegation at the Kuwait meetings to endorse the embargo if it was submitted. But the subject was not raised at these meetings.

Q: It has been reported that the French company Entrepose will assist you in the expansion of the Kirkuk-Mediterranean pipeline and in raising its capacity to 70 million tons a year instead of 60 million; also that you have allocated $400 million for the construction of a 1,000-kilometer pipeline to Dortyol in Turkey with a capacity of 35 million tons a year starting in 1977, in addition to the construction of a third pipeline from Kirkuk to a port in the Gulf. Is this true?

A: Yes it is true. At present the production of the Iraq National Oil Company (INOC) is restricted not because of the productive capacity of the fields but because of the limited capacity of the port installations. The same is true of the productive capacity of the northern fields, which is limited by the present pipeline through Syria and Lebanon. The transport facilities from Kirkuk to the export terminals on the Mediterranean or to the Gulf have caused us real problems. So after the nationalization of IPC we proceeded to draw up plans to expand the existing pipeline and port installations and build new installations as part of short and long term plans aimed at expanding production.

Our plan for a new pipeline network is aimed at raising transport capacity and providing flexibility. To this end the expansion of the Kirkuk-Banias pipeline to increase its capacity by an additional ten million tons/year is now taking place. Other increases in production capacity from our northern fields can be made, as can development of new fields for production. For this purpose a new 900-kilometer pipeline through Turkey will be constructed with an ultimate capacity of 35 million tons. A new two-way strategic pipeline 655 kilometers long will also be constructed linking the northern fields with southern Iraqi ports. The capacity of this line will be 44 million tons going north and 50 million tons going south, and the contract for the construction of this pipeline will be signed very soon.

As part of the same plan a deepwater port will be constructed in the south of Iraq for INOC with an export capacity of 80 million tons a year, which will include berthing facilities for 350,000-ton tankers. The contract for the construction of this terminal has been signed.

Q: Why were you not satisfied just to expand the Kirkuk-Banias line? Is there any need to lay a pipeline across Turkey?

A: The capacity of the Kirkuk-Banias pipeline can only be increased by 10 million tons a year, that is from 60 to 70 million tons. We have given Syria a loan to expand the capacity of the

line in their territory. This is a long-term loan without interest and will be repaid from the anticipated increase in oil transit fees.

The reason for laying a new pipeline across Turkey is to have a means of transporting new oil production from the northern fields, which will amount to some 25-35 million tons a year, of which Turkey will buy some 10-12 million tons. The remaining quantities will be sold to other countries. Iraq will build the section on its territory, while Turkey will finance and build the section passing through its territory. We have always stressed the need for increasing the number of export points because of the dangers surrounding the Arab world. You will therefore find that the new line will not be a replacement for existing lines but a supplement to them.

Q: Besides the expansion program you are undertaking, how much has the oil picture in Iraq changed in comparison with the situation before the nationalization of IPC?

A: Our oil resources are limited and exhaustible. The oil sector must serve as a basis for the industrialization of our economy and the creation of new sources of production. Therefore our oil revenues must be used to implement the economic development plan and to accelerate the industrialization of our agriculture and of the other economic sectors. In the past when the oil companies controlled production and exports they were in a position to control the size of our revenues and as a result to control the scope of our development plan. They were also in a position to obstruct or slow down the implementation of our plan through blocking or reducing production.

This is what in fact happened in 1972 when IPC made a major cut in production from the northern fields, which led the government to freeze many development projects. The sharp reduction in production which took place in 1972 created an impossible situation, particularly since the company had taken its interests and aims into consideration when deciding the level of production instead of the national goals of the country and its economic requirements. The government had no alternative other than to take steps to ensure the implementation and to realize the aims of its economic development plans.

Now the picture is different from the past. It is now the requirements of the economic development plans which decide the level of oil production and the size of our oil revenues.

Q: Will INOC carry out its expansion program alone or will it ask for assistance from other foreign companies in the form of service contracts? Will American companies be invited or acceptable as partners in these contracts?

A: INOC has full responsibility for the exploration for and development of new oil resources in Iraq, with the exception of the areas allocated to BPC. Therefore when it drills in an area it can invite other companies to enter into service contracts in order to speed up the discovery and production of oil in specified areas. At present three foreign companies are working in Iraq as contractors on behalf of INOC - ERAP, Petrobras and the Oil and Natural Gas Commission of India. INOC has declared open for bidding six new blocks with a total area of some 48,000 square kilometers and bids for them will be received at the end of this year.

We will award these areas on a competitive basis under service contracts. The company which is most competent and gives the greatest benefit to INOC will have the best chance, and will be awarded the area it seeks. These service contracts guarantee the contractor the repayment of drilling expenditures in the event of success and a long-term supply

of oil at a special price. They also guarantee the contractor the level of production and the price he must pay, since that is part of the terms and is therefore negotiated with INOC before the signature of the service contract.

Q: Do I understand from that that you do not object to American companies drilling in Iraq on the basis of service contracts? Are there American oil skills you do not object to making use of?

A: The position on cooperating with American companies in general depends on American policy towards the Arab nation, and this is a policy which is still opposed to the rights of the Arabs and their legitimate interests to an extreme degree. As for individual foreign companies, including American companies which wish to work in Iraq on a commercial and competitive basis within a framework of mutual interest, they will be welcomed in Iraq. The scope of cooperation is not limited to oil alone but includes other fields where the country requires it, such as industrial products and expertise which will benefit economic development.

Q: In some circles it is said that Iraq is increasingly allowing the Soviets to direct its oil production. Does this not mean that you are exchanging one foreigner for another, that you are replacing one imperialist with another imperialist?

A: My answers to your previous questions make it clear that those who are saying this are either ignorant of the facts or have no regard for the truth. You can of course verify the falsity of these assertions. If you want to visit the Rumaila field we will welcome the visit and arrange the trip at any time that suits you. By this means you can confirm that the oil produced by the national sector is under the control of INOC and disposed of solely by it.

In the same week Dr. Hammadi gave another lengthy interview to a correspondent of the Paris daily <u>Le Monde</u>. The interview, published on 19 December, covered a good deal of the same ground as the <u>al-Anwar</u> article, though from a somewhat different viewpoint. Here are some of the more significant questions and answers from the Iraqi Oil Minister's interview with <u>Le Monde</u> (MEES translation from the French):

Q: Iraq has a particular position within the Organization of Arab Petroleum Exporting Countries with regard to the use of the oil weapon. Could you explain to us the reasons for this?

A: We pay great attention to the needs of the consuming countries, and we have no intention of deliberately making difficulties for them. We do not want to create an artificial shortage. I have told you that we are in favor of long term agreements on an equitable basis. Besides, a complete break in relations would not benefit either side. This is why we have not participated in an action which has caused a shortage and which runs the risk of damaging friendly countries. We have always thought that the countries with which we are not in agreement must be singled out. In our opinion the oil weapon should be used selectively against those we wish to strike at. Therefore we have decided to boycott the US for its continued support of Israel.

Q: And the Netherlands?

A: We are also boycotting the Netherlands.

Q: The other members of OAPEC, particularly the Algerians, think that these two embargoes are effective only because a situation of shortage has been simultaneously created; with each consuming country trying to ensure its own supplies first and foremost no-one will think of helping his neighbor. For this to happen cutback measures must go in harness with the embargo measures. What are your views on this?

A: That is one way of looking at it. But I would remind you that the shortage existed even before the war broke out. All countries were more or less short of oil. In our opinion there is no need to make the situation worse, since one can then no longer avoid harming friendly countries as well. For ourselves we only want to strike at our enemies. And that is why we have also nationalized American interests in Iraq.

Q: Only oil interests?

A: Those were the only interests. And we proposed that our sister countries should do the same. The oil we have taken back from the Americans we have used to help friends who are in difficulties.

Q: Who, for example?

A: Spain, Brazil, Pakistan, India, Poland, Tanzania, etc. These countries have sent delegations here.

Q: At what price did you sell them this oil?

A: At the market price.

Q: Do you intend to auction your oil, like Iran?

A: We have no such plans at the moment.

Q: How far in your opinion is the price of oil likely to climb?

A: Who knows? But I would like to say that we are not in favor of an indefinite price spiral in international trade. We would prefer a stable and predictable relationship to be established, notably between the price of oil and the price of other merchandise. If we could avoid raising the price of crude oil, believe me we would. If we do raise our prices it is because we have no other way to protect the purchasing power of our revenues. Let the consuming countries agree to stabilize the sale price of their products and we will gladly do the same for oil.

Q: In the present situation do you think it is really in the interests of the producers to bind themselves to long-term arrangements with their clients? Do you not regret the long-term oil agreements you have signed with the Soviet Union and France, for example? Do you not think that these agreements prevent you from gaining maximum profit from the new market conditions?

A: In all the commercial agreements we have signed reference is made as far as prices are concerned to market prices. As for the 10-year agreement with CFP, it is, as you know, based on a political agreement between the two governments signed in June 1972 following the nationalization of IPC, under which Iraq reserved a special position for France.

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Dr. Rashid ar-Rifa'i on Iraq's Oil Policy

Iraqi News Agency 1300 gmt 25 Dec 73

Text of report of press conference given in Kuwait on 24th December by Dr. Rashid ar-Rifa'i, head of the Iraqi delegation to the Tehran OPEC meeting:

At the press conference, Dr. Rifa'i noted that Iraq had received an invitation to attend the conference of Arab oil exporting countries held in Kuwait yesterday to hear a report on the tour made by the Algerian Oil and Energy Minister and the Saudi Oil Minister to a number of European countries and the United States and to agree on a date for the convocation of the Arab Oil Ministers' next conference in Tripoli, Libya, next month.

Rifa'i said that Iraq had responded eagerly to the invitation in the hope that it would see a serious change in the position of the brother conferees regarding the use of the oil weapon in the battle. He said: It is with the utmost regret, therefore, that when we arrived in Kuwait we were informed that the purpose of the invitation was to obtain Iraq's approval of the resolution to reduce production which was adopted by the Kuwait conference held last October. The head of the Iraqi delegation to the conference would like to explain to the public that such a stipulation was not contained in the invitation cable nor in the letter of invitation addressed to the head of the Iraqi delegation to the conference. While regretting this attitude by some of the fraternal Arab states - an attitude which aims at isolating Iraq in accordance with the plans of imperialism, which considers Iraq, which has nationalized its oil interests, as being in the forefront of its enemies - the head of the Iraqi delegation asserts that this attitude does not serve the Arab nation but undoubtedly serves the Arab nation's enemies in a direct manner. This attitude also does not conform to the requirements of the confrontation as advocated by some Arab regimes, and contradicts the simplest fundamentals of Arab solidarity and the accepted principles in similar organizations. On this occasion, the head of the Iraqi delegation would like to elucidate Iraq's position, which has often been expressed by senior officials of the state, regarding the use of the oil weapon in the national battle and the way to use it effectively to achieve the desired aims.

From the beginning, the position that Iraq has interpreted into practical measures from the very first day of the October war and has adopted after meticulous study and analysis of the nature of the battle and the seriousness of the role which Arab

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oil plays in influencing the basic interests of the various states of the world and their economic blocs and international policies - this position has been based on the following:

(1) Nationalization of the interests of imperialist states which insist on supporting the Zionist enemy against our Arab people.

(2) Completely cutting off oil supplies to these states.

(3) Ensuring fulfilment of the oil consumption requirements of peoples and states which understand our cause and adopt a friendly or a neutral position, each according to its circumstances, and refrain from supporting the imperialist-Zionist aggression against our Arab nation.

(4) Withdrawal of Arab assets which are frozen in the states that support the aggression, and utilizing these assets for the development of the Arab countries and the African states which adopt an honourable position in support of Arab rights.

(5) Adoption of a liberal oil policy commencing with complete control of the national resources, a policy aimed at the establishment of stability and justice in the relations between the producers and the consumers without mediation or interference by the monopolist companies.

Iraq has the following in mind in adopting this policy: first, the main purpose behind using this weapon; and second, securing the necessary conditions to ensure the effectiveness of this weapon in the battle.

The main condition for us to be able to use oil as an effective weapon is the realization of complete control by us over our oil resources. As long as foreign companies continue to carry out the export operation and as long as these companies continue to reap fantastic profits from their operations in the Arab homeland, our ability to use the oil weapon effectively and continuously to achieve our aims of destiny will fall short of achieving these aims.

Iraq has, therefore, called and continues to call for the need to nationalize oil operations in the Arab homeland so that the Arab nation will control oil production and exports and turn them into an effective tool to reinforce our international position and develop our international economic relations in a manner that serves our national aims.

Iraq's sincere call for nationalization is not based on an illusion or an impossible slogan, as some quarters describe it. The nationalization experiment in Iraq has proved to the whole world that the Arab nation is capable of running its own affairs by itself and of imposing its full control over its natural resources. The constantly growing world demand for oil has made nationalization not only practically and technically possible, but also the only way to realize our political and economic aims and deal with the consumer states on the basis of mutual interest without the intermediary of the world monopolies.

For this reason and despite its appreciation of the particular circumstances of the oil industry in the Arab countries, Iraq calls upon all the Arab states to nationalize their oil industries as a basic step towards enabling us to use oil as an effective weapon in the battle. Conditions in the world are favourable for the adoption of such a step. Furthermore, all the necessary financial, technical and scientific capabilities are available either in the Arab homeland or the world at large.

We sincerely call for the adoption of the policy of nationalization at this stage. We see no reason or difficulty in the way of nationalization. We should like to know about these difficulties if they do exist, and we are prepared to co-operate to the utmost in helping to overcome any difficulty that might face us in ensuring the success of nationalization.

We should have liked to make this call and raise these questions before the brother conferees, but we have found out that the attitudes of the other Arab countries have not undergone any basic change in this respect. This prompted us to address the Arab people directly and to ask the basic question: What is the purpose of using oil as a weapon in the battle? Is the purpose to place our friends and our enemies in the same trench? Is it to win more friends for the Arabs and their cause of destiny or to win more enemies?

Arab oil is a vital strategic commodity for the economies of all the oil-importing countries. Cutting off oil supplies to enemy countries completely while safeguarding the oil interests of states [friendly] to the Arab homeland will make the governments of these [enemy] countries reconsider their attitudes to the Arab nation and see where the true interests of their own peoples lie, but reducing oil exports to friendly and neutral countries will only weaken these countries and destroy their economies and this will definitely not serve the Arab cause but only serve the cause of our enemies. If we were to compare the effect the oil cutback on the United States with that of the reduction of oil production on Europe and Japan, we would clearly see that most of the harm falls on Europe and Japan and not on the United States.

The consequences about which Iraq has warned from the start have materialized in the form of sufferings for Europe, Japan and the countries of the Third World. The economies of these countries are suffering from a lack of energy, reduced production, increased costs, increased prices, growing unemployment, and the decline of their currencies, while there are clear signs of improvement in the American economy, the strengthening of the dollar, and improvement in the American balance of payments.

All these results were expected. They are bound to have adverse effects on the Arab nation's interests and its cause of destiny.

For this reason Iraq strongly calls for a halt to oil cutbacks and reductions vis-a-vis friendly and neutral countries and for the pressure to be concentrated on hostile countries, striking their true interests by nationalizing their companies in the Arab homeland, depriving them of Arab oil, and directing our oil exports to friendly countries and to the industrialization of our economies and the strengthening of our international position, thereby augmenting the Arab nation's ability to achieve victory.

But to cut back oil and reduce production while permitting the American companies to continue to control our oil wealth would be like carrying arms while leaving the trigger in the hands of the enemy.

Following the reading of this statement, the journalists asked questions on various aspects of the oil industry and Iraq's position regarding them.

BAGHDAD OBSERVER

21/12/73

Nationalisation real way of using oil as a weapon

SADDAM HUSSEIN ON IRAQ'S OIL DEVELOPMENT STRATEGY

"The real and successful way of using oil as a weapon against the United States and the Zionist enemy is by nationalising American oil interest and the interests of any country standing by the enemy. This is the weapon which actually forces America to cease supporting the enemy."

This was stated by Comrade Saddam Hussein Deputy Secretary of the Regional Leadership, Vice-Chairman of the RCC and the Chairman of the Follow up Committee of Oil Affairs and agreements to the daily AL-THAWRA, the following is the text of the interview

"The ruling reactionary quarters, well-known for their connections with America and the American monopolist interests have already rejected the slogan of employing [illegible] as a weapon in the nationalist battle against the Zionist-imperialist aggression All the serious proposals and plans submitted by Iraq along the Arab official and popular [illegible] have been rejected, which plans have been based on solid nationalist and scientific foundations in order to achieve their intended goals in the best way

When the war broke out on 6th October 1973, those quarters remained silent and did not take any measures in the field of oil. But following the nationalisation by Iraq of American shares in the Basrah Petroleum Company on 7th October, and with the mounting battle against the enemy and the rising total and urgent popular demand for assailing the American interests in the area, and following more than ten days of war these quarters started adopting a series of measures in the field of oil, chiefly the stopping of oil supplies to the U.S. and Holland, and the reduction of the general production.

Oil Embargo and Output Reduction

The stoppage of oil supplies to the U.S. and Holland is a correct measure although we have regarded it as weak and inadequate for pressuring the U.S. and deterring her from supporting the enemy But the policy of reducing production in general has damaged other countries more than it has done the U.S., which is a very different matter, leading into results opposed to its declared purposes.

ANOTHER OIL NATIONALISATION MOVE

RCC NATIONALISES SHARES OF PORTUGUESE GULBENKIAN FOUNDATION IN BPC

HOSTILE ATTITUDE OF RACIST PORTUGAL AGAINST ARAB NATION

The Revolutionary Command Council resolved yesterday to nationalise the common share of the Participation and Exploration Company in the Basrah Petroleum Company Limited, held by the Portuguese Gulbenkian Foundation. Following are the full texts of the Resolution and Law promulgated in that connection:

"In view of the hostile attitude of the racist Portuguese regime against the Arab nation, which was especially evident during the October War, and as Portugal is a racist state exercising the most ruthless acts of terrorism and annihilation against the peoples of Africa who fight for their liberty and independence, and in confirmation of Iraq's attitude in support of national liberation movements in Africa and elsewhere in Europe, and in implementation of the principle of using oil in the national Arab battles, and as Gulbenkian Foundation holds the Portuguese nationality and exercises most of its activities in the territory of that state and spends most of its resources in it, thus renders Portugal the foremost beneficiary of profits accruing to the Foundation from its share in the BPC operations, the Revolutionary Command Council has decided to nationalise the Gulbenkian share in the operations of Basrah Petroleum Company Limited, as per the following law.

"Persuant to Para A, Article 24 of the interim Constitution, the Revolutionary Command Council resolved at its session held on December 20, 1973, to promulgate Law No. 101 of 1973."

"Article One: The common share of the Participation and Exploration Company held by Gulbenkian Foundation of Portugal amounting to 5 per cent, in the operations of Basrah Petroleum Company Limited in Iraq, shall be nationalised, and the title deed of that share together with all rights to the said operations shall revert to the State

"Article Two The title deed of the said share and all property, rights and assets which have reverted to the State under Article One hereof shall be transfered to the Iraq National Oil Company which shall not be liable to previous obligations related to the said share except in as much as has been reverted to the State, with no other obligations being considered.

"Article Three: The State shall pay compensation for the rights reverted to it under Article One hereof to the equivalent of the net book value thereof, less the amounts required to settle taxes, duties, fees and any other amounts due to the Government of the said share.

"Article Four; The Iraqi National Oil Company shall have the right to carry out crude oil sale contracts currently in force and related to the nationalised share, rescind or amend the same in accordance with the interests of the State.

"Article Five: Any provision, judgement, agreement or disposal in violation of provisions hereof shall be totally nul and void

Article Six: In case any company participating in BPC Limited or any other party having relation or interest in the said company's operations in Iraq or the nationalised share should undertake any action in violation of this law, the Government without violation of the sanctions and powers provided for in effective laws, may rescind any concession, share, interest or compensation accruable to such company or party in Iraq.

"Aticle Seven: The Minister of Oil and Minerals may issue instructions and adopt necessary measures to enforce this law.

"Article Eight: The ministers are charged with the implementation of this law.

Article Nine: This law shall come into force as from December 20, 1973."

BAGHDAD OBSERVER
21/12/73

The reduction of production in the manner arranged by the Arab reactionary quarters, succeeding in drawing in other Arab quarters, means in practice the deprivation of the West European countries and Japan of their oil requirements, causing them a very difficult economic crisis.

If you compare the effect created by the oil embargo decision against the U.S. and that caused by the reduction of production in Europe and Japan, it would be obvious that the greater damage has been sustained by Europe and Japan and not the U.S. This is a big political mistake, if the purpose of this policy is to create favourable conditions for the Arabs in their just struggle against the Zionist enemy. Although West Europe has got its important weight in pressuring the enemy, and notwithstanding the urgent need for its taking an explicit and just attitude on the lawful Arab cause, West Europe is not the strongest party supporting the Zionist aggression and enabling it to contain with the occupation of Arab land in defiance of human values and sentiments. The party which is doing that is well-known, namely, the U.S. which is unreservedly supporting the enemy with arms, money and political support. It would be the natural thing to direct the oil weapon against the U.S. and those standing by it, and not against the other states and parties.

[illegible]

Detriment to the Arab Stand

The pro-U.S. and pro Zionist quarters are trying to exploit this situation in the most hedious manner and on a large scale in order to discredit the Arab stand and the just Arab cause by depicting the Arabs as avengers against states and people without reasonable justification, indifferent to their basic requirements and using the resources in a blackmailing manner.

If we are really concerned about our cause, which is one of the most just in the world, and eager for winning the peoples' support for us, we should not offer any justifications or pretexts for our enemies to distort our stand in this manner.

Throughout the past years, and thanks to the independent political line followed by General de Gaulle, West Europe started gradually to head for relative independence of the American positions in many aspects, including the attitude to the Arab cause. This development [illegible] of the opinions and assessments concerning it, is in the interests of the Arabs.

It is to be presumed that [illegible] the contrary inflict great damage upon it.

We should be perfectly frank and ask who is to gain from this policy?:

All political and economic indications point out that the U.S. is ultimately the biggest benefiter from this policy. It is true that the reduction of production has increased the interest of European and the Japanese in the Arab cause and induced many of them to adopt better political stands. But the final outcome of this policy, if it were to continue along this line, would be in favour of American strategy, and this should be well realised by the Arab masses and the countries of West Europe and Japan.

The occurrence of an acute economic crisis in West Europe and Japan might push them at present into issuing relatively good statements. But these countries will find themselves compelled to abandon their independent policy and rely more and more upon the U.S. in a subsequent stage.

Prior to the October war the U.S. had called for a bloc of consumer countries to face the OPEC. The West European countries and Japan had taken a negative attitude to this call; but now, and in the future, and in the event of continuing this erroneous policy under the guise of employing oil as a weapon, this call would fall on willing ears.

[illegible]

The U.S. controls the greater part of the output of the Arab countries and other Middle East countries, and dominates the marketing and the prices at will. Following the aggravation of the economic crisis in West Europe and Japan The U.S. would come forth as their saviour, acting through her monopolist companies as well as through her well known agents in the [illegible] — while the other countries would be harmed. On the other hand it is well known that the oil production costs in the U.S. and Alaska are very high in comparison with the production costs in the Middle East. The U.S. has been incapable of competing with other oils on the world markets. Following the recent increases in prices and the continued rate of their rise, the American oil produced in U.S. and Alaska would be more "economical" than before, and might become capable of competition on the world markets. It has also become possible to invest very huge capital for its extraction.

On the Question of Price Increase

There is the question of increase in prices. The demand for increase in prices on the part of the producing countries is a lawful justified by the high and concurrent increases in the prices of the various goods manufactured in the industrial countries. But the recent increases which have occurred at a mad pace, have brought grist to the mill of the American strategy the same as the policy of the output reduction in the manner in which it has been applied. This policy confirms the image which American imperialism and Zionism is trying to create of the Arabs, namely the attempt at depicting the Arab stand as blackmail of [illegible]

The price increase in this form would result weakening the European and Japanese oil companies, which are independent of the world monopoly dominated by the U.S., and perhaps in their final destruction. This would result in grave consequences. If the U.S. were to succeed in squeezing these companies out of the world market she will become a supreme controller of the world oil policy and the oil prices.

Nationalisation Is the Real Path

In addition to all that has been said, this erroneous policy would provide imperialism and Zionism with all the pretexts they have been trying to obtain for perpetuating the most hedious crimes [illegible] against the Arab people under the guise of defending the world and human civilisation.

Such are the main concrete results now and in the future of the policies followed by the Arab reactionary quarters, servants of U.S., and which have swept other quarters [illegible].

Those policies are not in the interests of the Arab cause but serve the American strategy.

We strongly warn against the dire consequences of following in the steps of this suspicious policy. The Arab patriotic quarters should be aware of the dangers and intrigues with which it is fraught to the Arab cause; and they should expose it most vigorously.

The real and successful path for using oil as a weapon in the face of the U.S. and the Zionist enemy is to nationalise the American oil interests and the interests of [illegible] siding by the enemy. It is this weapon which will eventually compel the U.S. to stop supporting the enemy.

At the same time nationalisation would bring us full economic independence, enabling us to fully control our resources and freely deal with [illegible]

If you compare the effect created by the oil embargo decision against the U.S. and that caused by the reduction of production in Europe and Japan, it would be obvious that the greater damage has been sustained by Europe and Japan and not the U.S. This is a big political mistake, if the purpose of this policy is to create favourable conditions for the Arabs in their just struggle against the Zionist enemy. Although West Europe has got its important weight in pressuring the enemy, and notwithstanding the urgent need for its taking an explicit and just attitude on the lawful Arab cause, West Europe is not the strongest party supporting the Zionist aggression and enabling it to contain with the occupation of Arab land in defiance of human values and sentiments. The party which is doing that is well-known, namely, the U.S. which is unreservedly supporting the enemy with arms, money and political support. It would be the natural thing to direct the oil weapon against the U.S. and those standing by it, and not against the other states and parties [illegible]

Detriment to the Arab Stand

The pro-U.S. and pro Zionist quarters are trying to exploit this situation in the most hedious manner and on a large scale in order to discredit the Arab stand and the just Arab cause by depicting the Arabs as avengers against states and people without reasonable justification, indifferent to their basic requirements and using the resources in a blackmailing manner.

If we are really concerned about our cause, which is one of the most just in the world, and eager for winning the peoples' support for us, we should not offer any justifications or pretexts for our enemies to distort our stand in this manner.

Throughout the past years, and thanks to the independent political line followed by General de Gaulle, West Europe started gradually to head for relative independence of the American positions in many aspects, including the attitude to the Arab cause. This development [illegible] of the opinions and assessments concerning it, is in the interests of the Arabs.

It is to be presumed that the Arabs should strive by all means to develop this attitude and build up Arab European relations based on equality, mutual respect and common benefits.

Who is to Gain from the Erroneous Policy?

However, recent measures taken by some Arab countries do not serve this aim but on [illegible] interest of European and the Japanese in the Arab cause and induced many of them to adopt better political stands. But the final outcome of this policy, if it were to continue along this line, would be in favour of American strategy, and this should be well realised by the Arab masses and the countries of West Europe and Japan.

The occurrence of an acute economic crisis in West Europe and Japan might push them at present into issuing relatively good statements. But these countries will find themselves compelled to abandon their independent policy and rely more and more upon the U.S. in a subsequent stage.

Prior to the October war the U.S. had called for a bloc of consumer countries to face the OPEC. The West European countries and Japan had taken a negative attitude to this call; but now, and in the future, and in the event of continuing this erroneous policy under the guise of employing oil as a weapon, this call would fall on willing ears.

The U.S. controls the greater part of the output of the Arab countries and other Middle East countries, and dominates the marketing and the prices at will. Following the aggravation of the economic crisis in West Europe and Japan the U.S. would come forth as their saviour, acting through her monopolist companies as well as through her well known agents in the area —

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There is the question of increase in prices. The demand for increase in prices on the part of the producing countries is a lawful justified by the high and concurrent increases in the prices of the various goods manufactured in the industrial countries. But the recent increases which have occurred at a mad pace, have brought grist to the mill of the American strategy the same as the policy of the output reduction in the manner in which it has been applied. This policy confirms the image which American imperialism and Zionism is trying to create of the Arabs, namely the attempt at depicting the Arab stand as blackmail at the time when the Arabs have all right and justice on their side. At the same time this policy is fraught with grave economic consequences. The American monopolist oil companies are the biggest in the world, and hence the price increases would augment the profits of these companies. The U.S. would benefit from that continued rate of their rise, the American oil produced in U.S. and Alaska would be more "economical" than before, and might become capable of competition on the world markets. It has also become possible to invest very huge capital for its extraction.

The price increase in this form would result weakening the European and Japanese oil companies, which are independent of the world monopoly dominated by the U.S., and perhaps in their final destruction. This would result in grave consequences. If the U.S. were to succeed in squeezing these companies out of the world market she will become a supreme controller of the world oil policy and the oil prices.

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In addition to all that has been said, this erroneous policy would provide imperialism and Zionism with all the pretexts they have been trying to obtain for perpetuating the most hedious crimes [illegible] against the Arab people under the guise of defending the world and human civilisation.

Such are the main concrete results now and in the future of the policies followed by the Arab reactionary quarters, servants of U.S., and which has swept other quarters regrettably.

Those policies are not in the interests of the Arab cause but serve the American strategy.

We strongly warn against the dire consequences of following in the steps of this suspicious policy. The Arab patriotic quarters should be aware of the dangers and intrigues with which it is fraught to the Arab cause; and they should expose it most vigorously.

The real and successful path for using oil as a weapon in the face of the U.S. and the Zionist enemy is to nationalise the American oil interests and the interests of any country, siding by the enemy. It is this weapon which will actually compel the U.S. to stop supporting the enemy.

At the same time nationalisation would bring us full economic independence, enabling us to fully control our resources and freely deal with the countries of the world, on the basis of equality and mutual benefit and in a manner promoting the prosperity of both our people and the peoples of the world.

Such is the path we have chosen in Iraq and which has been proved by experience to be correct and to fully embody our patriotic and nationalist interests and aspirations.

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RECEIVED IN REGISTRY No 35
28 DEC 1973
NBR 12/7

Copy Mr G. Lockton Energy Dept
then p.a.
PB 28/xii
(84)

Royal Swedish Embassy
British Interests Section
Baghdad

G S Burton Esq.,
Middle East Department,
Foreign & Commonwealth Office,
London.

LAST PAPER

Your reference

Our reference

Date 18th December, 1973

Dear Graham,

IRAQS OIL POLICY EXPLAINED.

In a fairly logical article, reprinted in the Baghdad Observer from a magazine "Palestine Revolution", Iraqs policy of nationalisation rather than cutback is explained. A copy of the article is enclosed.

2\. " The Arab oil producing countries have chosen three methods of using oil as a weapon against the United States:

a) Reduction of output by 5% monthly
b) Raising oil prices
c) Cutting off supplies to USA and countries supporting Israel.

3\. " Reduction of output

(i) This measure has had most impact on the economies of Europe and Japan, who do not produce oil, but depend on the Arabs for their imports (Europe 70/80%, and Japan 43%).USA imports only 6% of her requirements from the Arabs. Factory owners in the USA are no doubt delighted that the effect of the oil cutback has been to give then economic advantage over Europe and Japan.

(ii) Europe, with the exception of Holland, has become neutral in the ME conflict. But due to the short duration of the war, this rift with USA is less effective than it might have been in support of the Arab cause. A weak Europe is now less able to exert pressure on the US to the Arab advantage, and the US is criticising Europes neutrality.

4\. " Raising oil prices

Since 80% of Arab output is exploited under the concession system, and 65% of that by US companies, the rise in prices is of considerable benefit to the US companies. It stands to reason that they should be deprived of this advantage. In any case the price of crude is low compared with price of the refined product. Some derivatives have suffered increases of 100% to 400% following the crude price increase. Some consumer governments impose direct taxes of five times the price/barrel of crude. Oil company profits are high (examples given).KOC and Royal Dutch Shell have substantial Rothschild shareholdings.

LAST PAPER

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" Cutting Oil supplies to US

Despite the positive nature of this step, its effect on the US economy is limited in the short term, and the call for petrol rationing in USA is claimed as a measure which will re-assure Israel of a continued pro-Zionist policy in the States, rather than encourage support for the arabs. Increased product prices may hasten dollar inflation, however, particularly when aided by a reluctance on the part of Arabs to hold dollar reserves."

6. The article ends with an explanation of the advantages of nationalisation. It states that the partial measures above do not tackle the basic interests linking Western companies and countries with Arab oil. These are two. Firstly the profits obtained from oil which contribute handsomely to the balance of payments of the parent countries. Secondly, the strategic advantage of Western company control over important cources of energy, which assists those countries to obtain oil resources at the right time and at acceptable prices. Clearly, any measure which is to inflict radical damage on these basic interests must deprive the companies of their concessions, and the economic, financial and strategic value these concessions represent.

7. This article is one of the few in Iraqs newspapers which make any attempt to treat the subject coherently. There is no indication of the author, but both Oil Minister Hammadi, and Under Secretary Chelabi, addressed the Iraqi Economists Association on oil policy at about that time (10 December). While it may be true that Iraqs policy has the advantage of securing maximum income at a time vital to her expansion; the argument that cutback and price increase hurt the wrong people is one we would use ourselves with the other Arab producers. But that is not to say that nationalisation without fair compensation is a more attractive fate.

I. McCluney

Encl.

Baghdad Observer 7 Dec 1973

7/12/1973 Vol. V, No. 1784 THE BAGHDAD OBS

NATIONALISATION : RE
U.S. SUPP

EVER since the first day of the flare-up of war in the Middle East, the Arab countries have been calling for the employment of oil as a political weapon against the United States which is extending unlimited support to the Zionist enemy, both politically, financially and military. What has been, then, the role of the Arab wealth in the scales of forces? The oil-producing countries have decided upon:

1. Reduction of their oil output by 5% monthly.
2. Raising the oil prices.
3. Cutting off oil supplies to the United States and the countries supporting Israel.

1. REDUCTION OF OUTPUT:

This measure has been detrimental to the European countries and Japan in the first place, because these countries do not produce oil, and depend upon their imports from the Arab countries to meet their requirements at a percentage ranging between 70 and 80% for the European countries, and 43% for Japan. On the other hand, the U.S. produces the greater part of her oil (530 million tons in 1972) and imports only 6% of her requirements, from the Arab countries (nearly 40 million tons). This figure will rise to 75 million tons in 1973. In this phase of economic competition between the U.S. on one hand and Europe and Japan on the other, the scales will be tipped in favour of American economy, and this is what every factory-owner in the U.S. wishes for.

We are not denying the value of this reduction of output. It certainly has had a positive effect in neutralising Europe with the exception of Holland, which has been a new development; and although this measure has increased the political and economic contradiction between the U.S. and her allies, the short duration of the war has not yielded the required effect. Furthermore, West Europe is unable for the same reason to exert pressure upon the U.S. for modifying the latter's policy towards our cause. On the contrary, President Nixon has criticised his European allies for their neutral attitude.

2. 70% RAISE IN THE OIL POSTED PRICES:

Approximately 80% of the Arab oil output, which in 1973, reached 950 million tons, is being exploited under the concession system. In keeping with the rule of profit division between the governments and companies, and in view of the fact that American companies control 65% of the shares of the companies exploiting Arab oil, the price increase at present would be of benefit to us as well as to the American companies. It stands to reason that we should at least deprive the American companies and those supporting the enemy from these benefits.

It should be noticed that the price of oil at present is still very low, and that its raise by 75% cannot amount to a real and effective pressure, at the time when the prices of some oil derivatives have been raised by a percentage ranging between 100 and 400%, and the consumer countries have been imposing a direct tax on oil amounting to five times the amount obtained by the producer countries for each barrel. This explains the reason why the U.S. does not try even to conceal her pride at helping our enemy. We should not forget that the Zionist Rotschild family controls a large number of the shares of the American Gulf Company, which exploits 50% of the Kuwait output, and also the Dutch Shell Company.

The American companies have obtained profits from their exploitation of Arab oil, reaching in 1972 alone to two milliard dollars approximately; and their profits are still increasing, without being affected by the adopted measures.

The seven-headed Western oil outputs, five out of which are American companies, actually controls the oil industry in the non-socialist world. Its profits are fabulous. According to the Financial and Statistics Appendix of the Annual Report for 1971 of the Standard Oil of New Jersey, its net profits that year reached 1517 million dollars. The reports of the other four American companies (Standard Oil of California, Mobil Oil, and Texas Oil) have pointed out net profits in the same year to the amount of 4.7 milliard dollars.

3. CUTTING OFF OIL SUPPLIES TO THE U.S.:

The cutting off of oil supplies to the U.S. has induced the U.S. Congress to ask President Nixon to impose the rationing of oil and all its derivatives, as had been the case during the Second World War. According to Senator Jackson, such a measure would reassure Israel that the U.S. shall not change its pro-Zionist policy.

The Arab oil measure is bound to be reflected on the prices of oil in the U.S., resulting in further inflation. The prices of oil and its derivatives have instantaneosly risen by percentages ranging between 1.5 and 2 cents per gallon; and this means an equal increase in inflation; and what is more important, the Arab oil producing countries will hasten to get rid of their dollar reserves in return for some solid currencies. Financial experts have serious misgivings of a new dollar devaluation.

In spite of all this, this measure will not result in strangulation of American economy, as some people think, unless it is maintained for a long time at least. The U.S. has imported 75 million tons from the Arab world in 1973; as to her remaining imports, they are still arriving from Venezuela, Nigeria, Iran and Indonesia.

Hence, all the measures taken in the sphere of oil, despite their positive aspects, have not been sufficiently active.

NATIONALISATION: RADICAL AND DECISIVE SOLUTION

In face of these facts, there is no other way for us than to lay our hands on our oil resources which are the backbone of Arab economy, and that by the nationalisation of the shares of American companies in the Arab countries, as the only solution which would hit the very core of these interests, as Iraq has done.

All the partial and temporary measures would not radically hit the basic interests linking the antagonistic Western countries (especially the U.S.)

(Continued on page 3)

NATIONALISATION: RETALIATION TO U.S.

(Continued from page 2)

to our oil. That is because these basic interests are of two inter-connected types: first, the huge profits obtained by the oil companies from the exploitation of our oil, and which greatly contribute to the balance of payments of their countries, and secondly, the strategical advantage represented in the maintained control of these companies over these important sources of energy, which are indispensible for the West in general. These countries are eager to keep these sources under the control of their companies, in order to constantly secure oil resources at the right time and at acceptable prices.

Hence, any measure which is decided upon, for inflicting radical damage upon these basic interests and uprooting them should be the deprivation of these Western oil companies of their oil concessions, with all the economic, financial and strategical value which they represent.

ESTIMATED OIL EXPORTS OF THE ARAB HOMELAND

1975 and 1980 (unit: 1000 barrels daily).

Region	1970	1975	1980
Arab Homeland	13,[illegible]	[illegible]	[illegible]
World	[illegible]	[illegible]	[illegible]
Percentage of Arab World	[illegible]	[illegible]	72,400

Abridged from Palestin al-Thawra (Palestine Revolution)